

Docket:	:	<u>A.11-07-005</u>
Exhibit Number	:	<u> </u>
Commissioner	:	<u>Mark J. Ferron</u>
Administrative Law Judge	:	<u>Douglas M. Long</u>
DRA Project Coordinator	:	<u>Pat Ma</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE
RESULTS OF OPERATIONS
SAN GABRIEL VALLEY WATER COMPANY
Fontana Water Company Division
Test Year 2012-2013 and
Escalation Years 2013-2014 and 2014-2015
Application 11-07-005**

For authority to increase water rates in Fontana Water Company Division

San Francisco, California
November 3, 2011

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1 **MEMORANDUM**

2 The Division of Ratepayer Advocates (“DRA”) of the California Public
3 Utilities Commission prepared this Results of Operations Report on the General
4 Rate Case A.11-07-005, filed on July 11, 2011 by the San Gabriel Valley Water
5 Company for its Fontana Water Company Division.

6 In this Report, DRA presents its analysis and recommendations associated
7 with the Applicant’s request. Pat Ma serves as project coordinator, and Herbert
8 Merida serves as assistant coordinator and prepares the Results of Operations
9 tables in this proceeding. DRA’s legal counsel for this case is Martha Perez.

EXECUTIVE SUMMARY

In A.11-07-005, San Gabriel Valley Water Company (herein also referred to as “Fontana”) requests an increase of \$8,164,800 or 14.2% in Test Year 2012-2013, by \$3,067,400 or 4.7% in Escalation Year 2013-2014, and by \$3,758,200 or 5.6% in Escalation Year 2014-2015 for its Fontana Water Company division. Fontana requests to use a rate of return of 9.25% which was adopted in D.10-10-035.

The Division of Ratepayer Advocates (“DRA”) recommends an increase of 2.1% in Test Year 2012-2013 and inflationary increases for the Escalation Years, consistent with the California Public Utilities Commission’s revised rate case plan D.07-05-062. A listing of DRA witnesses and their respective chapters is on the next page. Attachment A of this report presents DRA witnesses’ statements of qualifications. Key recommendations are presented on pages 1-2 to 1-3 of Chapter 1 – Overview and Policy.

List of DRA Witnesses and Respective Chapters

CHAPTER	DESCRIPTION	WITNESS
-	Executive Summary	Pat Ma
1	Overview and Policy (WQLMA & WQMA)	Pat Ma (Ray Charvez)
2	Water Consumption and Operating Revenues	Toni Canova
3	Operations & Maintenance Expenses (Payroll)	Toni Canova (Herbert Merida)
4	Administrative & General Expenses (Payroll)	Toni Canova (Herbert Merida)
5	Taxes Other Than Income	Mark Bumgardner
6	Income Taxes	Mark Bumgardner
7	Utility Plant in Service	Kerrie Evans Pat Ma Mandy Rasmussen
8	Depreciation Reserve & Depreciation Expense	Herbert Merida
9	Rate Base	Herbert Merida
10	Customer Service	Pat Ma
11	Rate Design	Chari Worster
12	California Alternative Rates for Water	Cara Bautista
13	Balancing & Memorandum Accounts	Nick Kotyrlo
14	Conservation	Chari Worster
15	Sandhill Water Treatment Plant Upgrade	Mandy Rasmussen
16	Slemmer Settlement & Office Complex	Kerrie Evans
17	Water Quality	Kerrie Evans
18	Step Rate Increases	Pat Ma
Appendix A	Statements of Qualifications	All
Appendix B	Attachments to Chapters 12 and 15	Cara Bautista Mandy Rasmussen

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

On July 11, 2011, San Gabriel Valley Water Company filed A.11-07-005 requesting authority to increase its Fontana Water Company division's rates by \$8,164,800 or 14.2% in Test Year 2012-2013, by \$3,067,400 or 4.7% in Escalation Year 2013-2014, and by \$3,758,200 or 5.6% in Escalation Year 2014-2015.

San Gabriel Valley Water Company (also referred in this Report as "Fontana") estimates that its proposed increases will produce revenues providing a rate of return on ratebase of 9.25%. The 9.25% rate of return was authorized by the Commission in D.10-10-035.¹

This Report sets forth DRA's analysis and recommendations on Fontana's General Rate Case requests. DRA presents at the end of this Chapter Tables 1-1 through 1-3 which compare Fontana's and DRA's Summary of Earnings for the Test Year.

B. DISCUSSION

1) Recommended Revenue Requirement Increases

Table 1-A below provides a comparison of Fontana's and DRA's estimated revenue requirement increases for the Test Year, both based on a 9.25% rate of return on rate base (Escalation Years' increases are discussed in Chapter 18 – Step Rate Increases of this Report.)

¹ 2010 Cost of Capital decision for San Jose Water Company, Valencia Water Company, Park Water Company and Apple Valley Ranchos Water Company, San Gabriel Valley Water Company, and Suburban Water Systems.

Table 1-A
Test Year 2012-2013 Revenue Requirement Increase

	Amount of Increase	Percent Increase
Fontana	\$8,164,800	14.2%
DRA	\$1,216,600	2.1%
Difference	\$6,948,200	12.1%

In addition to the above, DRA also recommends a **refund of \$11.5 Million to ratepayers** if the Commission adopts DRA's capacity adjustment to the Sandhill Water Treatment Plant Upgrade's cost, as detailed in Chapter 15 of this report.

2) Key Recommendations

The differences between Fontana's and DRA's revenue requirement increase estimates are due to DRA's recommended adjustments in sales and revenues, expenses, taxes, capital budgets and rate base. Some of DRA's key recommendations are:

- a) Reduce Fontana's requested 2011-2014 plant addition total by 59%, from (company-funded) \$69,300,000 to \$28,625,000 (Chapter 7);
- b) Reject Fontana's request to remove previously authorized ratebase disallowances related to the Walnut Avenue pipeline and the retaining wall at Plant F7 (Chapters 7);
- c) Reduce Fontana's Allowance for Funds Used During Construction estimates from \$375,571 to \$70,238 to adjust for previously disallowed plant and to decrease applicable interest rate from Fontana's authorized rate of return to short-term interest rate. (Chapter 7);
- d) Require Fontana to report on its effort to reduce the number of customer inquiries regarding billing and service leaks (Chapter 10);

- 1 e) Remove the California Alternative Rates for Water program costs
2 and benefits from rate design, implement surcharges to collect
3 funding for the program and surcredits to pay out discounts to
4 low-income customers, and require Fontana to report and verify
5 program participation (Chapter 12);
- 6 f) Reduce Fontana's requested conservation budget for Test Year
7 2012-2013 from \$503,968 to \$147,578 (Chapter 14);
- 8 g) Implement a 39% capacity adjustment to the portion of ratebase
9 associated with the Sandhill Water Treatment Plant Upgrade. DRA
10 estimates this will result in a \$13.2 million reduction to Test Year
11 2012-2013 ratebase and a refund of \$11.5 million to ratepayers
12 (Chapter 15);
- 13 h) Reject Fontana's request to remove previously authorized ratebase
14 adjustment associated with the Slemmer settlement costs
15 (Chapter 16); and
- 16 i) Reject Fontana's request to remove previously authorized ratebase
17 adjustments associated with the Office Complex, order an audit of
18 the building costs for the Office Complex, and require the company
19 to conduct an analysis of the costs associated with using Tilt-Up
20 construction costs. (Chapter 16).

21 **3) Recommendations Regarding the Water Quality Litigation**
22 **Memorandum Account and Water Quality Memorandum Account**

23 DRA presents in Chapter 13 of this Report its recommendations on
24 Fontana's requests regarding various balancing and memorandum accounts.
25 Fontana's requests regarding its Water Quality Litigation Memorandum Account
26 and Water Quality Memorandum Account are discussed below.

1 In its current Application, Fontana is requesting authorization to amortize
2 over an appropriate period the balance in its Water Quality Litigation
3 Memorandum Account as of the date of the decision. As of March 2011, the
4 balance is \$1,308,583. Fontana also requests authorization to add to its Water
5 Quality Memorandum Account future expenditures related to water quality,
6 including, but not limited to: (1) the capital costs and operations and maintenance
7 expenses of needed wellhead treatment facilities that cannot reasonably be
8 forecasted; and (2) record any reimbursements from polluters or government
9 funding proceeds received for the construction and operation of any new treatment
10 facilities.

11 (a) Water Quality Litigation Memorandum Account (“WQLMA”)

12 The WQLMA was established for the purpose of recording actual litigation
13 and directly related costs related to water contamination in its service area. DRA is
14 currently in the process of auditing the WQLMA and will complete its
15 reasonableness review within two to three weeks from the date of this Report. At
16 that time, DRA will provide the Division of Water and Audits a Memorandum
17 outlining the results of DRA’s audit.

18 In Advice Letter 398, dated May 13, 2001, Fontana requested to amortize
19 the March 31, 2011 balance in its WQLMA. On June 23, 2011, the Division of
20 Water and Audits suspended this Advice Letter until October 20, 2011. DRA
21 suspects that the suspension will continue until the completion of DRA’s audit.
22 The Commission should order Fontana to withdraw its request to amortize the
23 balance in its WQLMA from this General Rate Case since it is pending in an
24 Advice Letter.

1 (b) Water Quality Memorandum Account (“WQMA”)

2 The WQMA was established for the purpose of recording actual costs
3 incurred and proceeds recovered from polluters or grants received from
4 governmental agencies related to water quality. These costs include, but are not
5 limited to the capital costs and operations and maintenance expenses of needed
6 wellhead treatment facilities that cannot reasonably be forecasted for the Test
7 Years. It should be noted that Fontana has identified Resolution W-4089 and
8 W-4094 as authorization for establishing this Memorandum Account. After
9 reviewing Fontana’s Preliminary Statement, there does not appear to be a tariff
10 sheet that creates a WQMA. Without a filed tariff sheet or an effective date,
11 Applicant does not have the ability to recover its WQMA costs from its customers.
12 DRA recommends that Fontana file a tariff sheet which creates a WQMA within
13 30 days of this General Rate Case decision. The balance in the WQMA has been
14 \$0 since 2008. This \$0 balance is addressed in Exhibit SG 3, the Direct
15 Testimony of David M. Batt, page 16 and Attachment – P.

16 **C. CONCLUSION**

17 DRA recommends that the Commission find DRA’s Test Year Results of
18 Operations, presented in Tables 1-3 and 1-4 at the end of this Chapter, and DRA’s
19 recommendations presented in this Report reasonable.

TABLE 1-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

SUMMARY OF EARNINGS

TEST YEAR 2012 - 2013

(AT PRESENT RATES)

Item	DRA Estimate	Utility Estimate	Utility exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	57,696.1	57,619.2	(76.9)	-0.1%
Operating expenses:				
Operation & Maintenance	24,855.1	25,519.3	664.2	2.7%
Administrative & General	3,446.9	3,194.3	(252.6)	-7.3%
Allocated Common Expense	4,238.0	4,238.0	0.0	0.0%
Bank Charges	56.3	56.3	0.0	0.0%
Dep'n & Amortization	6,207.6	6,608.9	401.3	6.5%
Taxes other than income	2,628.0	2,894.6	266.6	10.1%
State Corp. Franchise Tax	916.9	702.3	(214.6)	-23.4%
Federal Income Tax	3,899.7	3,415.5	(484.2)	-12.4%
Total operating exp.	46,248.5	46,629.2	380.7	0.8%
Net operating revenue	11,447.6	10,989.9	(457.7)	-4.0%
Rate base	131,491.8	167,830.5	36,338.7	27.6%
Return on rate base	8.71%	6.55%	-2.16%	-24.8%

TABLE 1-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

SUMMARY OF EARNINGS

TEST YEAR 2012 - 2013

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	Utility Estimate	Utility exceeds DRA Amount	%
(Thousands of \$)				
Operating revenues	66,001.1	65,783.9	(217.2)	-0.3%
Operating expenses:				
Operation & Maintenance	24,893.7	25,557.9	664.2	2.7%
Administrative & General	3,446.9	3,194.3	(252.6)	-7.3%
Allocated Common Expense	4,238.0	4,238.0	0.0	0.0%
Bank Charges	56.3	56.3	0.0	0.0%
Dep'n & Amortization	6,207.6	6,608.9	401.3	6.5%
Taxes other than income	2,684.9	2,950.6	265.6	9.9%
State Corp. Franchise Tax	1,601.2	1,415.7	(185.4)	-11.6%
Federal Income Tax	6,365.1	6,240.0	(125.1)	-2.0%
Total operating exp.	49,493.7	50,261.7	768.0	1.6%
Net operating revenue	16,507.4	15,522.2	(985.2)	-6.0%
Rate base	131,491.8	167,830.5	36,338.7	27.6%
Return on rate base	12.55%	9.25%	-3.31%	-26.3%

TABLE 1-3

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

SUMMARY OF EARNINGS

TEST YEAR 2012 - 2013

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
(Thousands of \$)				
Operating revenues	57,696.1	58,912.7	1,216.6	2.1%
Operating expenses:				
Operation & Maintenance	24,855.1	24,860.7	5.7	0.0%
Administrative & General	3,446.9	3,455.2	8.3	0.2%
Allocated Common Expense	4,238.0	4,238.0	0.0	0.0%
Bank Charges	56.3	56.3	0.0	0.0%
Dep'n & Amortization	6,207.6	6,207.6	0.0	0.0%
Taxes other than income	2,628.0	2,628.0	0.0	0.0%
State Corp. Franchise Tax	916.9	1,023.2	106.3	11.6%
Federal Income Tax	3,899.7	4,282.4	382.6	9.8%
Total operating exp.	46,248.5	46,751.4	502.9	1.1%
Net operating revenue	11,447.6	12,161.3	713.7	6.2%
Rate base	131,491.8	131,491.8	0.0	0.0%
Return on rate base	8.71%	9.25%	0.54%	6.2%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations regarding the number of customers, water consumption, and operating revenues in the Test Year 2012-2013 for Fontana. DRA reviewed Fontana's Report on Operations, supporting workpapers, methods of estimating customer count, water consumption and operating revenues, responses to data requests, and all related direct testimonies.

The area served by Fontana includes portions of the cities of Fontana, Ontario, Rancho Cucamonga, and Rialto, as well as adjacent unincorporated areas in San Bernardino County.

B. SUMMARY OF RECOMMENDATIONS

Tables 2-1 through 2-7 at the end of this Chapter show DRA's recommendations and Fontana's estimates for the average number of customers, water consumption per customer, total sales and supply, and operating revenues at present rates and Fontana proposed rates. DRA concurs with Fontana's estimates for the average number of customers. For the Test Year 2012-2013, the total average number of customers estimated by the company and DRA is 44,016.

DRA's total metered sales forecast is 16,309.7 Kccf while Fontana's is 16,173.0 Kccf (see Table 2-4). Because DRA's unaccounted for water is 7.5% compared to Fontana's 9%, DRA's overall water supply is lower than Fontana's. DRA's estimated total water supply is 17,632.1 KCcf, while Fontana estimates 17,763.0 Kccf. This difference is due to different consumption estimates, as shown on Table 2-1.

1 At utility present rates, DRA's calculated total operating revenues for the
2 Test Year are \$57,696,100, and Fontana's are \$57,619,200. At the utility
3 proposed rates, DRA's calculated revenues are \$66,001,100 and Fontana's are
4 \$65,783,900. The difference in estimated operating revenues estimated by the
5 parties is due to the DRA estimating different sales forecasts per customer.

6 **C. DISCUSSION**

7 D.04-06-018 set forth the revised Rate Case Plan standards and procedures
8 for Class A water utilities filing a General Rate Case application. The
9 Commission in D.07-05-062 (R.06-12-016) adopted modifications to the existing
10 Rate Case Plan, but did not modify the methodology that should be applied to
11 develop the forecast average number of customers, water consumption per average
12 customer, and operating revenues.

13 **1) Average Number of Customers**

14 Utilities are required to forecast customer growth using a five-year average
15 of the annual change in the number of customers by customer class. Should an
16 unusual event occur, or be expected to occur, such as the implementation or
17 removal of limitation on the number of customers, then an adjustment to the five-
18 year average will be made.²

19 Fontana chose not to use the five-year averages for this rate case cycle to
20 reflect the severe economic recession conditions in the region. Fontana explains
21 that because of the large number of foreclosures in the area and the cessation of
22 home building, which is expected to continue for the foreseeable future, customer
23 growth has almost stopped completely. It asserts that there was some customer
24 growth up until the last two or three years, so a five-year average would not reflect
25 the no-growth situation predicted for the next several years. Fontana instead

1 projects the customer growth experienced in 2010 for all customer classification
2 except Public Authority Small and Public Authority Large.

3 For Public Authority Small and Large customer classifications, Fontana
4 does not anticipate any additional customers. The company claims that the City of
5 Fontana and Fontana Unified School District do not plan to add any new buildings
6 or schools. Therefore, Fontana is using the number of active customers at the end
7 of 2010 to estimate the average number of customers for these two customer
8 classes for this rate case cycle.

9 Based on the current economic conditions in Fontana service area, DRA
10 accepts the company's analysis of customer forecasts and agrees with Fontana's
11 estimates of average number of customers for each customer classifications as
12 shown in Table 2-2 and 2-3 for Test Year 2012-2013 and Escalation Year 2013-
13 2014.

14 **2) Average Water Consumption per Customer**

15 The applicant utility and DRA are required to use the "New Committee
16 Method" to forecast per-customer usage in general rate cases, based on the
17 "Standard Practice No. U-2", "Supplement to Standard Practice No. U-25," and
18 the improvements adopted in D.07-05-062, the Revised Rate Case Plan.³

19 Fontana based its 2012 forecast consumption for all customer classes on
20 regression analysis, except for one large industrial customer, California Steel
21 Industries, Inc. For California Steel Industries, Inc. Fontana used a three-year
22 average to estimate average consumption.

(continued from previous page)

² D.07-05-062, Revised Rate Case Plan for Class A Water Utilities, Appendix A, page A-22.

³ D.07-05-062, Revised Rate Case Plan for Class A Water Utilities, Appendix A, page A-23.

1 Fontana used a regression analysis as described by the New Committee
2 Method to produce a sales forecast for 2012 that reflects the continuing reduction
3 in sales experienced over the last three years. According to Fontana this reduction
4 is expected to continue because of the continued economic downturn, the
5 emphasis on water conservation, and the implementation of tiered rates in July of
6 2010 for the Residential Single-Family customer class.

7 DRA concurs with Fontana's method of forecasting average customer
8 consumption for all customer classes and the resulting sales forecast for calendar
9 year 2012, other than the additional adjustments Fontana applied to its regression
10 forecasts as described below.

11 For calendar year 2013, consumption forecast for all customer
12 classifications except California Steel Industries, Inc., Fontana applied a one
13 percent per year reduction to the calendar year 2012 consumption forecast.
14 Fontana explains that this reduction is to reflect Fontana's expanded conservation
15 efforts. Fontana applied an additional one-percent per year reduction to reflect the
16 effects of the implementation of tiered rates for Residential Single-Family class.
17 Fontana also applied another one percent reduction to the 2012 forecast for Public
18 Authority Large classification to reflect the effects of the installation of irrigation
19 timers, efficient irrigation nozzles, and the expected use of recycled water by these
20 customers. In other words, Fontana applied a two-percent reduction factor to both
21 Residential Single-Family customer class and Public Authority Large customer
22 class. These reductions lower the calendar year 2013 and 2014 forecasts which
23 are used to calculate the Test Year and Escalation Year consumption estimates.⁴

⁴ The fiscal Test Year (2012-2013) consumption estimates are an average of the calendar year 2012 and 2013 estimates.

1 DRA does not agree with these percentage reductions because the Rate
2 Case Plan requires that sales for the Escalation Years be calculated using Test
3 Year sales per customer.⁵ Thus, DRA does not use any reduction factors when
4 estimating consumption per customer.

5 The purpose of developing a sales forecast is to approximate normal
6 operating conditions for a utility in the Test Year. Historical data shows that
7 residential customer consumption generally held relatively constant between 2001
8 and 2007, but in the past three years has decreased each year. There were several
9 factors contributing to this change. First, between 2007 and 2010 California was
10 going through a period of extremely low precipitation, prompting calls for
11 increasing conservation efforts by both state government and the water industry.
12 Second, the economic recession both nationwide and particularly in California
13 played an important role in the decline in customer consumption. Thirty percent
14 of Fontana's residential customers participate in the low-income program and
15 others may qualify. Fontana's customers have been impacted by the recession and
16 Fontana's customers have tended to cut back on water usage during the recession.
17 DRA removed Fontana's adjustments to consumption estimates because the
18 existing level of conservation is already accounted for in the regression's time
19 variable (Fontana names this variable the "slope" variable). Future levels of
20 conservation will be reflected in the time variable at the time of subsequent
21 General Rate Cases. This method more accurately adheres to the New Committee
22 Method.

23 See Table 2-1 at the end of this Chapter for a comparison of DRA and
24 Fontana's consumption per customer by customer class.

⁵ Interim Order Adopting Rate Case Plan, D.04-06-018, Appendix, pg.7. "Sales for the escalation years will be estimated for the residential, multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. The test year sales for all other customer classes will be used for both escalation years."

1 (a) Residential Single-Family

2 Fontana's consumption per customer estimate for Residential Single-
3 Family is 235.3 ccf for 2012. This estimate is based on the regression analysis
4 using five-year span of data ending December 2010, which produced the most
5 reasonable statistical results. Fontana believes that this estimate also reflects the
6 continued drop in consumption by residential customers over the past three years,⁶
7 and as reflected in the partial-year 2011 data provided by Fontana in Exhibit SG-
8 14.⁷

9 DRA does not agree with Fontana's Test Year estimated consumption of
10 235.3 ccf, and the Escalation Year consumption of 230.6 ccf⁸ because DRA
11 objects to the two-percent reduction applied to the 2012 estimated consumption to
12 reduce the 2013 and 2014 estimate. The application of a reduction factor for the
13 escalation years consumption estimates is not allowed in the Rate Case Plan.
14 However, DRA does agree with Fontana's regression forecast of 237.6 ccf for
15 2012, and used it to estimate its Test Year and Escalation Year consumptions.

16 In Chapter 14, DRA's witness Chari Worster notes that Fontana is fairly
17 close to meeting its 2020 water conservation targets. In that Chapter, DRA still
18 recommends maintaining a basic cost-effective water conservation program but at
19 a reduced cost to Fontana's customers.

20 (b) Residential Multi-Family - Small

21 Fontana's forecast of 618 ccf per customer for calendar year 2012 is based
22 on regression analysis using a ten-year span of data ending December 2010, which

⁶ Direct Testimony of Frank A. LoGuidice, SG-6, pg 5.

⁷ Supplemental Direct Testimony of Frank A. LoGuidice, August 2011, p 1 and Attachment 10.

⁸ Direct Testimony of Frank A. LoGuidice, SG-6, pg 6.

1 produced the best statistical results. Test Year estimate of 615 ccf includes the
2 one-percent reduction in the 2013 estimate. For the reason discussed earlier, DRA
3 uses the 2012 regression result of 618 ccf for Test Year and Escalation Year
4 estimates.

5 (c) Residential Multi-Family - Large

6 Fontana's New Committee Method regression results, using a ten-year span
7 of data ending December 2010, produced 8,209 ccf consumption estimate for
8 calendar year 2012. DRA uses this amount as its Test Year and Escalation Year
9 estimate. Fontana's additional one-percent reduction resulted in Test Year estimate
10 of 8,168 ccf.

11 (d) Commercial – Small

12 Regression analysis for small commercial customer class resulted in 492
13 ccf for 2012. Fontana used a five-year span of data because ten-years of data did
14 not produce a sales forecast that reflects the sales reduction experienced over the
15 last three years and continuing consumption reductions seen so far in 2011.²
16 Fontana also applied a one-percent reduction to its 2012 estimate resulting in a
17 Test Year 2012-2013 of 490 ccf. For reasons discussed earlier, DRA's estimate is
18 492 ccf for Test Year and Escalation Year consumption for small commercial
19 customers.

20 (e) Commercial – Large

21 For Large Commercial customers, Fontana's regression was based on ten-
22 years of data ending December 2010, which produced 4,132 ccf per customer for
23 calendar year 2012. With the one-percent reduction applied, Fontana used the

² Supplemental Direct Testimony of Frank A. LoGuidice, August 2011, p 1 and Attachment 13.

1 resulting 4,112 ccf as its Test Year 2012-2013 estimate. DRA uses the unadjusted
2 4,132 ccf consumption per customer from the regression analysis for its Test Year
3 and Escalation Year forecasts.

4 (f) Industrial – Small

5 Fontana used a ten-year span of data ending December 2010 to forecast 681
6 ccf for calendar year 2012 for Small Industrial customers. Fontana applied a one-
7 percent reduction to estimate 678 ccf for Test Year 2012-2013 consumption per
8 customer. DRA disagrees with the application of a reduction and uses the
9 unadjusted 2012 regression forecast of 681 ccf for this classification's
10 consumption per customer for Test Year and Escalation Year.

11 (g) Industrial – Large

12 Fontana's Industrial - Large customer class includes two large customers,
13 CEMEX and California Steel Industries. Their consumptions are estimated
14 separately because of their size. For the remaining Industrial - Large customers,
15 Fontana based its regression analysis on a ten-year span of data ending December
16 2010, resulting in 8,745 ccf for calendar year 2012. With the application of a one-
17 percent reduction to the 2012 estimate, Fontana's forecast is 8,702 ccf for Test
18 Year 2012-2013. DRA agrees with the regression results, but recommends that
19 the unadjusted estimate of 8,745 ccf be used for the Test Year and Escalation Year
20 forecasts.

21 (h) Public Authority – Small

22 For small public authority customers, which are mostly local governmental
23 offices, Fontana based its sales forecast on the five-year span of data, since this
24 produced the best statistical results and a consumption estimate of 915 ccf per
25 customer for calendar year 2012. After applying the one-percent per year
26 reduction Fontana's Test Year 2012-2013 estimate is 911 ccf. DRA disagrees with

1 the use of a reduction but agrees that the regression is the best consumption
2 estimate for this customer class. DRA recommends 915 ccf for Test Year and
3 Escalation Year forecasts.

4 (i) Public Authority - Large

5 Fontana estimates 5,916 ccf as the Test Year consumption per customer for
6 this customer class. Regression analysis results are based on a ten-year span of
7 data, which provided the best statistical results for the 2012 forecast of 5,975 ccf.
8 Fontana applies a two-percent reduction to the 2012 results to derive its 2013 and
9 again applies the two-percent reduction to derive 2014 estimates. The Test Year
10 forecast is the average of calendar year 2012 and 2013 results. DRA does not use
11 the reduction factor. However, DRA does agree with and uses the regression
12 results of 5,975 ccf for its Test Year and Escalation Year consumption per
13 customer estimates.

14 (j) CEMEX

15 Cemex is a customer with a sand and gravel operation and is under a
16 special Commission approved contract with Fontana. Under this contract, a
17 portion of the water delivered to Cemex is billed at the special contract rate, with
18 the remaining delivered water billed at Fontana's general metered rate. However,
19 for estimating total water sales, Fontana used regression analysis of ten-years of
20 data ending December 2010. The regression resulted in good statistical results and
21 an estimate of 164,928 ccf for calendar year 2012. Fontana chose to apply a one-
22 percent reduction to derive the 2013 estimate, and when averaged with the 2012
23 estimate, the resulting Test Year consumption is 164,104 ccf. DRA does not agree
24 with application of the one-percent reduction, but does agree with the regression
25 results of 164,928 ccf for 2012 and uses this amount for Test Year and Escalation
26 Year consumption estimates.

1 (k) California Steel Industries, Inc. (CSI)

2 Fontana did not use a regression analysis to forecast because Fontana only
3 supplies a portion of California Steel Industries' water requirements. Since 2005,
4 California Steel Industries has used water from its own wells to supplement or
5 replace its water needs from Fontana. Fontana used a three-year average of water
6 sales in 2007, 2008 and 2009 because California Steel Industries did have
7 supplemental deliveries from Fontana for those years. Going forward, a three-year
8 average appears reasonably approximate for expected sales to California Steel
9 Industries. DRA agrees with this method and the resulting 63,756 ccf for Test
10 Year sales estimate.

11 **3) Total Water Sales and Water Supply**

12 Test year total sales are based on the test year forecasted consumption per
13 average customer by customer classification, multiplied by the test year estimated
14 average number of customers per classification.

15 Total water supply represents the sum of water sales and water loss. To see
16 a comparison of DRA and Fontana's Total Sales and Supply refer to Tables 2-4
17 and 2-5 at the end of this Chapter.

18 **4) Operating Revenue**

19 Operating revenue is calculated by multiplying the number of customers by
20 their applicable water use and applying the current tariff rates for the present
21 revenue and to the utility proposed rates for the proposed revenue.

22 For Test Year 2012-2013, the total operating revenues calculated by DRA
23 are \$57,696,100 at present rates, and \$66,001,100 at utility's proposed rates.
24 Fontana calculations are \$57,619,200 and \$65,783,900, respectively. Tables 2-6
25 and 2-7 show a comparison of DRA's and Fontana's estimated operating revenues
26 at the utility present and proposed rates.

1 **5) Water Loss Rate**

2 Water loss is the amount of water used in operations for flushing the system
3 and water lost due to leakage. The loss amount is determined to be the difference
4 between the total amount of water produced and the total amount of water
5 recorded in sales. Fontana is projecting the water loss rate to be nine percent, the
6 same rate experience in 2010. DRA used a five-year average to project the water
7 loss rate of 7.5%, which is a usual method used by DRA. Fontana has used this
8 method in the last General Rate Case, and agreed to it in its recent Los Angeles
9 County Division Settlement Agreement (A.10-07-019). Fontana has not
10 adequately explained why a one-year recorded rate is a better estimate than the
11 previous method of five-year averaging. DRA recommends the Commission
12 approve the 7.5% water loss for this rate case cycle.

13 **6) Other Revenues**

14 Fontana has three accounts for Other Revenues consisting of Construction
15 (Account 609), Private Fire Protection (Account 604), and Miscellaneous service
16 revenues (Accounts. 611 and 614).

17 (a) Construction Revenues

18 Fontana estimates the Construction revenues (Acct. 609) of \$230,114 for
19 Test Year and Escalation Year, based on actual construction revenue levels
20 experienced in 2010. DRA agrees with this method and the revenue estimate.

21 (b) Private Fire Protection Revenues

22 Fontana estimates Private Fire Protection (Acct. 604) present revenues
23 based on the average number of customers projected for the test year, multiplied
24 by the current monthly service charge of \$12.44 per inch of diameter, times the
25 average size service diameter (7.65 inches), multiplied for twelve months,
26 calculate the fiscal Test Year revenues of \$1,046,065. The same calculation is

1 used for determining Private Fire Protection revenues at utility proposed rates.
2 DRA agrees with this method and the Test Year and Escalation Year results as
3 shown on Tables 2-6 and 2-7 at the end of this chapter.

4 (c) Miscellaneous Revenues

5 Total Miscellaneous revenues consist of two accounts added together to
6 calculate the Fontana's Test Year estimate of \$724,628. Account 611 primarily
7 consists of reconnection fees, and Account 614 is primarily reimbursements from
8 the County of San Bernardino for expenses to operate and maintain Plant F10
9 (water treatment facility), which removes groundwater contamination.

10 Fontana's testimony,¹⁰ states that the estimate for Account 611 is based on
11 a five-year inflation adjusted average; however, its work papers¹¹ reflect the use
12 of 2010 recorded amount of \$259,317. Fontana's response to the City of Fontana's
13 Data Request No. 2, Question No. 25, provides a correction to this calculation.
14 The Test Year estimate should actually be based on the five-year inflation adjusted
15 average for this account, and not the 2010 recorded amount. The corrected 5-year
16 inflation adjusted average is \$185,904 for Account 611.

17 The company's \$465,311 estimate for Account 614 contains similar errors.
18 Using the correct, five-year inflation adjusted average results in Test Year and
19 Escalation Year estimates \$283,134 per year.

20 Thus, DRA's total Miscellaneous Revenue, with corrections, is \$469,000
21 for both Test Year and Escalation Year estimates compared to Fontana's estimate
22 of \$724,600, or a reduction of \$255,600 (see Tables 2-6 and 2-7). DRA
23 recommends the Commission adopt this correct estimate.

¹⁰ Direct Testimony of Christina C. Sluss, Exhibit SG-9, page 4, lines 12 – 30.

¹¹ A.11-07-005 workpaper RV3, page 52.

1 (d) Recycled Water Revenues

2 Commission D.09-06-027, requires Fontana to prepare a separate
3 Application, A.11-06-005, to request authorization to provide recycled water
4 service. To avoid addressing this issue in two simultaneous applications, DRA
5 excludes the revenue forecast for recycled water in this General Rate Case revenue
6 chapter.

7 **D. CONCLUSION**

8 Upon investigating and analyzing Fontana's requests for the number of
9 customers, water consumption, and revenues, DRA recommends that the
10 Commission adopt DRA's recommendations.

TABLE 2-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
(CCF/CONN./YR)				
Residential - Single Family	237.6	235.3	(2.4)	-1.0%
Residential - Multi-Family Small	618.0	615.0	(3.0)	-0.5%
Residential - Multi-Family Large	8,209.2	8,167.9	(41.2)	-0.5%
Commercial - Small	491.9	489.4	(2.5)	-0.5%
Commercial - Large	4,132.1	4,078.0	(54.1)	-1.3%
Industrial, Small	681.1	678.4	(2.7)	-0.4%
Industrial, Large	8,744.9	7,563.3	(1,181.6)	0.0%
California Steel Industries	63,756.0	63,800.0	44.0	0.1%
Cemex USA	164,900.0	164,100.0	(800.0)	-0.5%
Public Authority, Small	915.1	910.7	(4.4)	-0.5%
Public Authority, Large	5,975.2	5,810.0	(165.2)	0.0%
Construcion, Small	459.0	457.6	(1.4)	0.0%
Construction, Large	1,990.9	1,990.9	0.0	0.0%

TABLE 2-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential - Single Family	39,679	39,679	0	0.0%
Residential - Multi-Family Small	973	973	0	0.0%
Residential - Multi-Family Large	131	131	0	0.0%
Commercial - Small	2,194	2,194	0	0.0%
Commercial - Large	345	345	1	0.1%
Industrial, Small	37	37	0	0.0%
Industrial, Large	49	49	0	0.0%
California Steel Industries	1	1	0	0.0%
Cemex USA	1	1	0	0.0%
Public Authority, Small	272	272	0	0.0%
Public Authority, Large	290	290	0	0.0%
Construcion, Small	33	33	0	0.0%
Construction, Large	11	11	0	0.0%
Total metered connections	44,016	44,016	1	0.0%
<u>Flat Rate Service</u>				
Private Fire Service	916	916	0	0.0%
Public Fire Hydrants	4,941	4,941	0	0.0%
Total flat rate connections	5,857	5,857	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	49,873	49,873	1	0.0%
Exclude Fire Protection	44,016	44,016	1	0.0%

TABLE 2-3

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2013 - 2014

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential - Single Family	39,722	39,722	0	0.0%
Residential - Multi-Family Small	973	973	0	0.0%
Residential - Multi-Family Large	131	131	0	0.0%
Commercial - Small	2,217	2,217	0	0.0%
Commercial - Large	348	348	0	0.0%
Industrial, Small	37	37	0	0.0%
Industrial, Large	49	49	0	0.0%
California Steel Industries	1	1	0	0.0%
Cemex USA	1	1	0	0.0%
Public Authority, Small	272	272	0	0.0%
Public Authority, Large	290	290	0	0.0%
Construcion, Small	33	33	0	0.0%
Construction, Large	11	11	0	0.0%
Total metered connections	44,085	44,085	0	0.0%
<u>Flat Rate Connections</u>				
Private Fire Service	936	936	0	0.0%
Public Fire Hydrants	4,988	4,988	0	0.0%
Total flat rate connections	5,924	5,924	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	50,009	50,009	0	0.0%
Exclude Fire Protection	44,085	44,085	0	0.0%

TABLE 2-4

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

TOTAL SALES AND SUPPLY

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential - Single Family	9,429.2	9,335.0	(94.2)	-1.0%
Residential - Multi-Family Small	601.3	598.4	(2.9)	-0.5%
Residential - Multi-Family Large	1,075.4	1,070.0	(5.4)	-0.5%
Commercial - Small	1,079.2	1,073.7	(5.5)	-0.5%
Commercial - Large	1,423.5	1,406.9	(16.6)	-1.2%
Industrial, Small	25.2	25.1	(0.1)	-0.4%
Industrial, Large	428.5	370.6	(57.9)	-13.5%
California Steel Industries	63.8	63.8	0.0	0.1%
Cemex USA	164.9	164.1	(0.8)	-0.5%
Public Authority, Small	248.9	247.7	(1.2)	-0.5%
Public Authority, Large	1,732.8	1,684.9	(47.9)	-2.8%
Construcion, Small	15.1	15.1	(0.0)	-0.3%
Construction, Large	21.9	21.9	0.0	0.0%
Recycled Water	0.0	95.9	95.9	0.0%
<hr/>				
Total metered sales	16,309.7	16,173.0	(136.7)	-0.8%
Unmetered & Unaccounted For Water	1,322.4	1,590.0	267.6	20.2%
DRA - 7.50%				
Fontana - 9.00%				
<hr/>				
Total delivered	17,632.1	17,763.0	130.9	0.7%
<u>Supply (Acre Feet)</u>				
Chino Basin Well	4,477.8	4,328.3	(149.5)	-3.3%
Non Chino Basin Well	21,800.0	21,800.0	0.0	0.0%
Lytle Creek Surface Water	8,100.0	8,100.0	0.0	0.0%
Other	6,100.0	6,550.0	450.0	7.4%
<hr/>				
Total production (Acre Feet)	40,477.8	40,778.3	300.5	0.7%
<hr/>				
Total production (KCCF)	17,632.1	17,763.0	130.9	0.7%

TABLE 2-5

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2013 - 2014

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential - Single Family	9,439.4	9,158.2	(281.2)	-3.0%
Residential - Multi-Family Small	601.3	592.6	(8.7)	-1.5%
Residential - Multi-Family Large	1,075.4	1,059.3	(16.1)	-1.5%
Commercial - Small	1,090.5	1,073.9	(16.6)	-1.5%
Commercial - Large	1,435.9	1,398.6	(37.3)	-2.6%
Industrial, Small	25.2	24.8	(0.4)	-1.6%
Industrial, Large	428.5	329.1	(99.4)	-23.2%
California Steel Industries	63.8	63.8	0.0	0.0%
Cemex USA	164.9	162.5	(2.4)	-1.5%
Public Authority, Small	248.9	245.2	(3.7)	-1.5%
Public Authority, Large	1,732.8	1,630.2	(102.6)	-5.9%
Construcion, Small	15.1	15.1	0.0	0.0%
Construction, Large	21.9	21.9	0.0	0.0%
Recycled Water	0.0	159.8	159.8	0.0%
<hr/>				
Total metered sales	16,343.6	15,935.0	(408.6)	-2.5%
Unmetered & Unaccounted For Water	1,325.2	1,560.2	235.0	17.7%
DRA - 7.50%				
Fontana - 9.00%				
<hr/>				
Total delivered	17,668.8	17,495.2	(173.6)	-1.0%
<u>Supply (Acre Feet)</u>				
Chino Basin Well	4,561.9	3,413.4	(1,148.5)	-25.2%
Non Chino Basin Well	21,800.0	21,800.0	0.0	0.0%
Lytle Creek Surface Water	8,100.0	8,100.0	0.0	0.0%
Other	6,100.0	6,850.0	750.0	12.3%
<hr/>				
Total production (Acre Feet)	40,561.9	40,163.4	(398.5)	-1.0%
<hr/>				
Total production (KCCF)	17,668.8	17,495.2	(173.6)	-1.0%

TABLE 2-6

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

OPERATING REVENUES

TEST YEAR 2012 - 2013

(AT PRESENT RATES)

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential - Single Family	34,860.4	34,624.4	(236.0)	-0.7%
Residential - Multi-Family Small	1,940.4	1,933.7	(6.7)	-0.3%
Residential - Multi-Family Large	3,242.3	3,230.0	(12.3)	-0.4%
Commercial - Small	4,347.1	4,334.5	(12.6)	-0.3%
Commercial - Large	4,081.6	4,043.6	(38.0)	-0.9%
Industrial, Small	99.4	99.1	(0.3)	-0.3%
Industrial, Large	1,190.6	1,057.9	(132.7)	-11.1%
California Steel Industries	228.9	228.9	0.0	0.0%
Cemex USA	262.4	261.3	(1.1)	-0.4%
Public Authority, Small	949.3	946.5	(2.8)	-0.3%
Public Authority, Large	4,748.5	4,639.0	(109.5)	-2.3%
Recycled Water	0.0	219.6	219.6	0.0%
Total General Metered	55,950.9	55,618.4	(332.5)	-0.6%
<u>Flat Rate Service</u>				
Construction	230.1	230.1	0.0	0.0%
Private Fire Service	1,046.1	1,046.1	0.0	0.0%
Total Flat Rate	1,276.2	1,276.2	0.0	0.0%
<u>Miscellaneous</u>				
Other Water Revenues	469.0	724.6	255.6	54.5%
Total Miscellaneous	469.0	724.6	255.6	54.5%
Total revenues	57,696.1	57,619.2	(76.9)	-0.1%

TABLE 2-7

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

OPERATING REVENUES

TEST YEAR 2012 - 2013

(AT PROPOSED RATES)

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential - Single Family	39,664.8	39,403.8	(261.0)	-0.7%
Residential - Multi-Family Small	2,251.7	2,243.8	(7.9)	-0.3%
Residential - Multi-Family Large	3,771.3	3,756.9	(14.4)	-0.4%
Commercial - Small	5,015.5	5,000.7	(14.8)	-0.3%
Commercial - Large	4,756.5	4,711.8	(44.7)	-0.9%
Industrial, Small	114.7	114.3	(0.4)	-0.3%
Industrial, Large	1,388.6	1,232.4	(156.2)	-11.2%
California Steel Industries	264.8	264.8	0.0	0.0%
Cemex USA	307.3	305.9	(1.4)	-0.5%
Public Authority, Small	1,095.9	1,092.6	(3.3)	-0.3%
Public Authority, Large	5,543.0	5,414.1	(128.9)	-2.3%
Recycled Water	0.0	160.1	160.1	0.0%
Total General Metered	64,174.1	63,701.3	(472.8)	-0.7%
<u>Flat Rate Revenues</u>				
Construction	258.1	258.1	0.0	0.0%
Private Fire Service	1,099.9	1,099.9	0.0	0.0%
Total Flat Rate	1,358.0	1,358.0	0.0	0.0%
<u>Miscellaneous</u>				
Other Water Revenues	469.0	724.6	255.6	54.5%
Total Miscellaneous	469.0	724.6	255.6	54.5%
Total revenues	66,001.1	65,783.9	(217.2)	-0.3%

1 **CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES**

2 **A. INTRODUCTION**

3 This Chapter presents DRA’s analysis and recommendations on Operation
4 and Maintenance (“O&M”) expenses for Fontana. At the end of this Chapter,
5 Table 3-1 shows a comparison of total Fontana’s and DRA’s expense estimates at
6 present rates for Test Year 2012-2013.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 DRA’s estimate for Total O&M expenses for Test Year 2012-2013 is
9 \$24,855,100. Fontana’s estimate is \$25,519,300. Fontana’s estimate exceeds
10 DRA’s by \$664,200 or 2.7%. DRA recommends that the Commission adopt
11 DRA’s O&M expense estimates for the reasons discussed below.

12 **C. DISCUSSION**

13 DRA analyzed Fontana’s application, testimonies, workpapers and methods
14 of estimating expenses, responses to data requests, and other information provided
15 in meetings and in e-mails.

16 Methods of Forecasting

17 Fontana’s forecasts for O&M expenses are made by individual sub-
18 accounts for accounting and ratemaking purposes as follows: Miscellaneous (00),
19 Payroll (01), Materials and Supplies (02) [which also include Postage (06) and
20 Subscriptions (09)], Transportation (04), Outside Services (05), and Utilities and
21 Rents (06). Each account has all or some of these sub-accounts. Accounts for
22 Purchased Power, Chemicals, and Un-collectibles do not have any sub-accounts.

23 Fontana uses a five-year average of inflation-adjusted historical expenses
24 from 2006 to 2010 as the basis for projecting Test Year estimates, except for
25 payroll, purchased water, chemicals, purchased power, transportation, and utilities

1 and rents. For transportation and utilities and rents, Fontana uses recorded 2010
2 costs escalated to calendar years 2011, 2012, 2013 and 2014. To estimate Test
3 Year 2012-2013, Fontana averages the estimates for calendar years 2012 and
4 2013, and similarly for Escalation Year 2013-2014, using calendar years 2013 and
5 2014.

6 Purchased power and purchased chemicals forecasts are derived by other
7 methods which are discussed further below.

8 DRA agrees with Fontana's methodology of using a five-year average of
9 inflation-adjusted historic expenses for estimating most future expenses, as
10 discussed below. DRA also concurs with the need to use recent recorded costs to
11 project certain expenses.

12 Inflation Factors and Escalation

13 Both DRA and Fontana apply the various escalation factors, published by
14 the DRA Energy Cost of Service Branch ("ECOS") Memorandum dated April 30,
15 2011, to forecast expenses. Table 3-1 compares DRA's recommended O&M
16 expenses to Fontana's requested O&M expenses for Test Year 2012-2013.

17 To avoid comparing differences in DRA and Fontana estimates that result
18 solely from application of escalation factors from different ECOS Memoranda,
19 DRA applies the same inflation factors used by Fontana in deriving Test Year and
20 Escalation Year expense estimates. These factors based on the most recent ECOS
21 Memorandum's data available should be considered at the time the Joint
22 Comparison Exhibit is prepared.

1 **1) OPERATION EXPENSES**

2 (b) PURCHASED WATER AND ASSESSMENTS

3 Purchased Water and Assessments expense consists of water lease costs,
4 assessments and replenishment costs imposed by the Chino Basin Watermaster,
5 assessments levied on Fontana Union Water Company stock, assessments imposed
6 by the Inland Empire Utilities Agency, assessments by the San Bernardino Valley
7 Municipal Water District, and purchased water costs from the State Water Project
8 and the Cucamonga Valley Water District. The Test Year 2012-2013 unit costs do
9 not reflect any increases because those rates have not yet been established by the
10 governing water agencies, so the rates from calendar year 2011 are used.¹²
11 Fontana maintains a full-cost water supply balancing account in which variances
12 between the recorded purchased water costs and assessments are tracked.

13 Groundwater is the principal source of water for Fontana, through a total of
14 38 groundwater wells, pumping mainly from Lytle Creek Basin, Rialto Basin,
15 Chino Basin and the non-adjudicated No Man's Land Basin. Fontana also relies on
16 local surface flows from Lytle Creek. Fontana purchases water from State Water
17 Project through Inland Empire Utilities Agency, and from the San Bernardino
18 Valley Municipal Water District.

19 In order to estimate cost of purchased water and assessments, Fontana
20 states:

21 "The company determined the availability of water from each of
22 the available supply sources, prioritizing the most economical
23 sources to the greatest extent that prevailing groundwater and
24 surface water conditions and limitations in water rights
25 adjudication allowance permit. As shown in the Water Cost
26 Summary for the Test Year, quantities of water from each source

¹² Fontana's Report on Operations (SG-1), page 5-2.

1 are priced based on the applicable unit costs for purchased
2 water, assessments, pump taxes and other water supplier prices
3 which are known and verifiable at the time this application was
4 filed.”¹³

5 In Fontana’s application, the Water Cost Summary tables ¹⁴ show the
6 adopted water production costs for 2009-2010, as well as the estimated quantities
7 to be produced from the Chino Basin for estimated year 2011, and Test Year
8 2012-2013. These tables also provide unit costs and assessments applicable to
9 those production quantities. Fontana has noted that its water supply mix is
10 “entirely dependent on hydrological conditions and economics.”¹⁵ The reliability
11 of surface water and State Water Project water can vary widely from year to
12 year.¹⁶ By treating surface water and treating purchased State Water Project water
13 at the Sandhill Treatment Plant, when those sources are available. Fontana can
14 minimize its Chino Basin Watermaster replenishment assessment costs. Also,
15 according to Fontana, the company leases unused Chino Basin pumping rights
16 each year from other pumpers, and purchases water in local groundwater storage
17 accounts from the Chino Basin Watermaster or other pumpers to lower assessment
18 costs.

19 DRA agrees with this method; however, DRA projects higher total
20 purchased water and assessments costs. DRA estimates \$11,642,700 and Fontana
21 estimates \$11,600,300. This is due to the fact that DRA projects higher total water
22 production requirement, thus increasing purchased water and assessment costs. In
23 addition, DRA removed sales associated with recycled water which increased the
24 total water requirement for certain customer classes, such as Commercial - Large,

¹³ Direct Testimony of Christina C. Sluss, SG-9, page 5-6.

¹⁴ Fontana’s Report on Operations (SG-1) Water Cost Summary tables on pages 5-4 through 5-6.

¹⁵ Direct Testimony of Robert K. Young, SG-11, page 4.

¹⁶ Direct Testimony of Robert K. Young, SG-11, pages 5 and 7.

1 Industrial - Large and Public Authority - Large . (see discussion in Chapter 2, page
2 1-12, and Tables 2-4 and 2-5 at the end of Chapter 2).

3 (b) PURCHASED POWER

4 Purchased Power is the cost of electricity from Southern California Edison
5 (“Edison”) needed to operate Fontana’s water system, including the power used in
6 pumping and delivering water. Edison’s current rates effective on March 1, 2011
7 are used to estimate Fontana’s Account No. 726 - Purchased Power.

8 Fontana states that estimated power consumption is based on forecasted
9 sales and the results of Edison’s pump tests on Fontana’s wells and booster
10 motors. After determining how many acre-feet of water each source must produce
11 to meet forecasted sales, Fontana then multiplies that production quantity by the
12 number of kilowatts each source requires to produce one acre-foot of water to
13 determine the total kilowatts required for that source. This same procedure is used
14 to estimate the power consumption for each booster station. The power required
15 for well pumps is added to the power required for boosters to derive the total
16 annual power needed for each facility site.¹⁷

17 The Purchased Power forecast starts with recorded 2010 Edison’s billing
18 information for each facility site. This information is then adjusted for water
19 production, plant additions and conversions for each year for 2011, 2012 and 2013
20 for each facility site, multiplied by the forecast energy usage for each year. An
21 average of estimated 2012 and 2013 is used to derive Test Year 2012-2013 costs.

22 DRA agrees with this methodology. Fontana’s estimate of Purchased Power
23 expense is \$4,661,400 in Test Year 2012-2013. DRA’s estimate is \$4,672,700,
24 which is \$11,300 more than Fontana’s estimate. The difference between DRA and
25 Fontana estimates is due to differences in water production estimates and a

¹⁷ Direct Testimony of Frank A. LoGuidice (SG-6) page 19.

1 correction¹⁸ DRA made to the formula on the summary page of Purchased Power
2 Expenses (Workpaper PP1 Summary, page 110). Fontana maintains a full-cost
3 power supply balancing account in which variances between power costs and
4 related recovery through billed revenues are recorded.

5 DRA recommends that the Commission adopt DRA's Purchased Power
6 estimate of \$4,672,700.

7 (c) PURCHASED CHEMICALS

8 Fontana's estimate of Purchased Chemicals (Account No. 744) expense is
9 \$877,600 in Test Year 2012-2013 based on recorded 2010 costs escalated by non-
10 labor inflation factor, and increased by the costs of treatment replacement at three
11 facility sites. Fontana added estimated costs for replacing the granular activated
12 carbon at Plant F10 (\$98,000), the ion-exchange resin at Plant F17 (\$172,500), and
13 the resin at proposed Plant F23 ion-exchange facility (\$69,000). Though the
14 replacement of these chemical typically occurs every two years, Fontana has
15 averaged out the cost to spread it uniformly over the four years in this rate case
16 cycle (2012 to 2015).

17 DRA agrees with this methodology with one adjustment. In its September
18 15, 2011, response to City of Fontana Data Request No.2, Question No.28,
19 Fontana explains that \$14,864 was inadvertently charged to the wrong account for
20 recorded 2010 expenses, and should be recorded in Acct. 744 – Chemicals. DRA
21 made this correction by removing the \$14,864 from Account 774-02 (materials &
22 supplies) and adding it to Account 744 recorded 2010 costs.¹⁹ DRA's estimate for
23 chemical costs for Test Year 2012-2013 is \$893,700. The difference between

¹⁸ Workpaper PP1-Summary tab, page 110, formula error in Annual Expense total cell omitted one of the subtotal expense items that should have been included (cell B35 – Annual Expense for Schedule TOU-PA-A).

¹⁹ DRA workpapers EX4a and EX4c, Accounts 744-02 and 774-02, for Operations and Maintenance Expenses.

1 DRA's and Fontana's estimate is due to the above correction. DRA recommends
2 the Commission adopt DRA's estimate because it is correct and reasonable.

3 (d) OPERATIONS - PAYROLL

4 This discussion on payroll covers the payroll expenses in operation and
5 maintenance expense and administrative and general expense.

6 Fontana's proposed payroll expense for Test Year 2012-2013 is
7 \$5,363,500. This amount is allocated to \$4,956,861 for Operations and
8 Maintenance Expenses and \$406,590 for Administrative and General Expenses.
9 Fontana projects payroll expenses by escalating existing salaries as of June 2011
10 into the Forecast Years 2012 and 2013. As a result of D.08-06-022,²⁰ Fontana did
11 not include salaries for vacant positions nor anticipated employee step increases.
12 The total Fontana payroll is then allocated among the Los Angeles County,
13 Fontana Water Company, and General divisions and among the various expense
14 and capital accounts using ratios developed from the latest recorded year of 2010.

15 Fontana added a Customer Service Representative in November 2009 and a
16 Customer Service Representative in November 2010. These two positions were
17 not authorized in the last General Rate Case. Fontana states that the two
18 additional Customer Service Representatives were needed to adequately staff the
19 Commercial Office to provide customer service for Fontana Water Company's
20 customer base. In this General Rate Case, Fontana proposes to add two additional
21 positions during the next three years: (1) Water Resource Manager, and (2) Water
22 Quality Superintendent. Fontana states that the new Water Resource Manager is
23 necessary in order to represent Fontana by attending meetings and promoting its
24 interests within each of the four basins that it operates and, as a result, freeing up

²⁰ D.08-06-022: states that vacant positions included in San Gabriel Valley's base payroll calculation should be removed from the payroll forecast.

1 time for the General Manager and Assistant General Manager.²¹ Regarding the
2 additional Water Quality Superintendent, Fontana states that the position is needed
3 to meet the current and anticipated future state and federal water quality standards,
4 regulations, and requirements for the Fontana Water Company division.²²

5 DRA recommends removing the two Customer Service Representatives for
6 the reason that the customer growth, which Fontana uses to justify the positions,
7 for the last 5 years (2006-2010) of 0.02% does not justify a 25% increase in the
8 number of Customer Service Representatives. Fontana has had eight Customer
9 Service Representatives in the last five years and, as seen in the Customer Service
10 Chapter of this Report, customer service is satisfactory for Fontana. As a result,
11 adding more personnel in Fontana's customer service area is not imperative and
12 not justified, especially considering the current economic environment and lack of
13 considerable customer growth.

14 Regarding the two positions Fontana proposes to add in this General Rate
15 Case, DRA recommends allowing the new Water Resource Manager for Fontana
16 while disallowing the Water Quality Superintendent position. With the new Water
17 Resource Manager attending the meetings previously the responsibility of the
18 General Manager and Assistant General Manager, the new Water Resource
19 Manager will free up time for the General Manager and Assistant General
20 Manager so that they can increase their attention to water quality issues. The
21 addition of the Water Resource Manager position should adequately serve
22 Fontana's needs since Fontana has not indicated any failures to meet local, state,
23 and/or federal requirements due to lack of personnel. In addition, the fact that the
24 Chairman of the Board for San Gabriel Valley Water Company, Michael

²¹ See Direct Testimony of Robert K. Young, Attachment M.

²² See Direct Testimony of Robert K. Young, Attachment N.

1 Whitehead, is on the Chino Basin Water Quality Board also helps Fontana keep
2 abreast of any Water Quality issues.

3 With the removal of the entire salaries from the Fontana division of the two
4 Customer Service Representative positions and the Water Quality Superintendent,
5 DRA calculated payroll expenses by escalating existing salaries as of June 2011
6 into the Forecast Years 2012 and 2013. DRA averaged the annual figures to
7 estimate the Fiscal Test Year payroll expenses. DRA estimates \$5,207,331 for
8 Test Year 2012-2013. The amount of payroll expense allocated to Operating and
9 Maintenance Expense is \$4,812,576 and to Administrative and General Expense is
10 \$394,755. DRA recommends that the Commission disallow Fontana's requested
11 positions for the reasons discussed above and adopt DRA's payroll expenses.

12 (e) OPERATIONS - MATERIALS & SUPPLIES – Sub-Account - 02

13 Fontana's estimate for Materials and Supplies Sub-Accounts -02 for all
14 operational accounts is \$246,700 and DRA's is \$227,800 in Test Year 2012-2013.

15 Fontana used a five-year average (2006 – 2010) to estimate costs for all
16 accounts that include a materials and supplies sub-account-02. The difference
17 between Fontana's and DRA's forecast is due to adjustments made by DRA to this
18 sub-account. DRA made the adjustment described above under "Purchased
19 Chemicals," by removing \$14,684 from this account, thus lowering the five-year
20 average calculation in Account No. 774-02.

21 DRA also made another adjustment by removing the total estimate of
22 \$15,067 from Account 786 – Conservation Expense, Material and Supplies
23 Sub-Account-02 for base year 2011, which zeroed out the estimate for 2012, 2013
24 and 2014.²³ This expense was already included in the forecast for the total
25 Conservation budget for all years in this rate case cycle and should not have been

²³ Fontana's workpapers, EX4c, page 31, Account 786-02.

1 included in this sub-account. DRA recommends that the Commission adopt
2 DRA's estimate of \$227,800 for Operations – Materials and Supplies
3 Sub-Account -02.

4 (f) CONSERVATION EXPENSE

5 For Conservation Expense, please refer to the Conservation Expense
6 discussion in Chapter 14.

7 (g) OPERATIONS – TRANSPORTATION – Sub-Account - 04

8 Fontana's estimate for Operations - Transportation (Sub-Accounts -04)
9 expense is \$560,600 in Test Year 2012-2013 based on the last recorded year
10 (2010) adjusted for inflation. DRA agrees with this methodology and the
11 estimated expense, and recommends no adjustment at this time.

12 (h) UNCOLLECTIBLES

13 Fontana is using a new method to calculate its uncollectibles in this general
14 rate case. It is using a five-year average of uncollectibles divided by Total Billed
15 revenues excluding Miscellaneous Revenue to estimate the uncollectibles. The
16 reason Fontana is removing miscellaneous revenue is that it is not included in the
17 calculation of its estimated uncollectibles. DRA has reviewed Fontana's revised
18 method and agrees that Fontana provides a better method of calculating
19 uncollectibles.

20 Fontana also adjusted its recorded uncollectibles in 2009. In 2009, Fontana
21 removed uncollectibles associated with historic Public Utilities Commission User
22 Fees ("User Fees"). Fontana added these removed User Fees back to its adjusted
23 2009 balance. Some of these uncollectible User Fees were associated with the
24 historic five-year base period, and some were associated with uncollectible User
25 Fees that occurred outside of the historic five-year base period. DRA used an
26 uncollectible base number that excluded uncollectible User Fees that were

1 incurred during the historic five-year base period because uncollectible User Fees
2 are not calculated inside a General Rate Case Proceeding, and the uncollectibles
3 associated with User Fees are excluded from the User Fees before they are paid to
4 the Commission.

5 The differences between DRA's and Fontana's estimates for uncollectibles
6 are due to: (1) the differences in DRA's and Fontana's uncollectible rate caused by
7 the adjustment in uncollectible User Fees, and (2) Fontana applying the
8 uncollectible rate to estimated Total Billed Revenues rather than Total Billed
9 Revenue less Miscellaneous Revenue, which was how the uncollectible rate was
10 calculated. Fontana inadvertently used the Total Billed Revenues without
11 removing the Miscellaneous Revenue in its calculation. DRA corrected this
12 oversight. DRA's uncollectible rate is 0.4648%.

13 (i) OPERATIONS - OUTSIDE SERVICES – Sub-Account - 05

14 Fontana estimates \$240,900 for Operations - Outside Services (Sub-
15 Account -05) for Test Year 2012-2013 based on five-year average adjusted for
16 inflation. DRA agrees with this methodology and the estimated expense, and
17 recommends no adjustment at this time.

18 (j) OPERATIONS - UTILITIES & RENTS – Sub-Account - 06

19 Fontana estimates \$51,400 for operations utilities & rents (Sub-Accounts -
20 06) for Test Year 2012-2013 based on the last recorded year (2010) adjusted for
21 inflation. DRA agrees with this methodology and the estimated expense, and
22 recommends no adjustment at this time.

23 (k) OPERATIONS - MISCELLANEOUS – Sub- Account - 00

24 Fontana estimates \$94,200 for operations miscellaneous (Sub-Accounts -
25 00) for Test Year 2012-2013 based on inflation adjusted five-year average. DRA

1 agrees with this methodology and the estimated expense, and recommends no
2 adjustment at this time.

3 **2) MAINTENANCE EXPENSES**

4 (a) MAINTENANCE - PAYROLL

5 See Payroll discussion in Section C.1.d above.

6 (b) MAINTENANCE – MATERIALS & SUPPLIES – Sub-Account -02

7 Fontana estimates \$641,600 for sub-account 02 for all Maintenance -
8 Materials and Supplies for Test Year 2012-2013. This is based on inflation
9 adjusted five-year average (2006 to 2010) for all accounts that have this Sub-
10 Account. DRA agrees with the methodology but has made two adjustments.

11 For Account 748 – Maintenance of Water Treatment Equipment, Sub-
12 Account-02 Materials & Supplies, DRA questions the high cost recorded in 2006
13 because it is extremely high compared to the other years used in Fontana’s five-
14 year average. The 2006 recorded amount is five times the recorded costs in 2010
15 and 2008, and twice that recorded in 2007 and 2009.²⁴ Therefore, DRA
16 eliminated the recorded 2006 amount from its average, thus used a four-year
17 average of costs recorded in 2007 to 2010.

18 DRA also uses a four-year average in estimating Account 763 –
19 Maintenance of Services, Sub-Account-02 Materials & Supplies. DRA eliminated
20 the recorded costs in 2008 from the averaging because it is almost twice the
21 recorded costs in both 2009 and 2010. When DRA questioned these costs,
22 Fontana’s response to DRA’s data request states:

²⁴ Fontana’s workpapers, tab EX5a, page 33, Account 748-02.

1 “San Gabriel experienced the need to repair or replace a
2 larger number of services that were leaking in the year 2008
3 than in other years. In 2008, San Gabriel replaced 3,257
4 services compared to the other years, 789 (2006), 1,713
5 (2007), 1,161 (2009) and 701 (2010). Costs associated with
6 this need in 2008 are therefore higher. The 2008 costs were
7 not a one-time expense. The company still has a large number
8 of active plastic services that could leak. As a result, a large
9 number of service repairs are expected to continue during this
10 GRC.”²⁵

11 The company has not adequately explained why this unusually high level of
12 replacement activity will likely occur in this rate case cycle. Their position is also
13 not consistent with the trend where there was a significant drop in 2009 and 2010
14 for service repairs that are more in-line with the trend with other recorded years.

15 As discussed in Chapter 7 – Utility Plant in Service, DRA concurs with
16 Fontana’s plan to replace 800 services per year to address leaks. DRA expects that
17 the company’s plan and effort to replace services will reduce leaks and
18 consequently cost less in this account. Therefore, DRA recommends excluding
19 2008 from the recorded average used in the forecast for Account 763 –
20 Maintenance of Services, Sub-Account-02 Materials & Supplies.

21 DRA’s total estimate for Materials and Supplies Sub-Account-02 is
22 \$536,700, which is \$104,900 less than Fontana’s \$641,600 estimate for Test Year
23 2012-2013. DRA’s recommended estimate is reasonable and should be adopted.

24 (c) MAINTENANCE – TRANSPORTATION – Sub-Account - 04

25 Fontana estimate for Sub-Account -04 for all accounts that include a
26 Transportation element is \$297,800 for Test Year 2012-2013. This is based on last

²⁵ Fontana’s response to DRA’s Data Request ALC-005, Question #3a and 3b.

1 recorded year (2010) escalated by non-labor inflation. DRA agrees with this
2 method and the calculated estimate. DRA recommends no adjustment at this time.

3 (d) MAINTENANCE – OUTSIDE SERVICES – Sub-Account - 05

4 Fontana and DRA agree with using a five-year average to estimate Sub-
5 Account -05 for all accounts that have Outside Services Sub-Accounts. However,
6 DRA made one adjustment by using a four-year average for Account 761 –
7 Maintenance of T&D Mains – Sub-Account-05. DRA eliminated the recorded
8 costs from 2009 because they are extremely high compared to the other years used
9 in the five-year average. The recorded costs for 2009 are more than twice that of
10 previous years (2006 – 2008), and much higher than the 2010 recorded costs in
11 this Sub-Account. Fontana explained this was due to main leak repairs at a busy
12 intersection which included the cost to remove and replace pavement in order to
13 make the repairs.²⁶ Fontana says this is not a one-time cost, but DRA does not
14 conclude that these costs should be included in averaging. The company has not
15 adequately explained why this unusually high level of costs should continue in this
16 rate case cycle. Therefore, DRA uses a four-year average to derive its estimate.

17 DRA's estimate is \$218,000 compared to Fontana's \$234,800 estimate.
18 DRA recommends that the Commission adopt DRA's estimate.

19 (e) MAINTENANCE – UTILITIES & RENTS – Sub-Account - 06

20 Fontana estimate for Sub-Account -06 - Utilities and Rents is \$7,800.
21 Fontana based its estimate on non-labor inflation adjusted 2010 recorded costs.
22 DRA agrees with this method and the calculated estimate. DRA recommends no
23 adjustment at this time.

²⁶ Fontana's response to DRA's Data Request ALC-005, question #2 a-2.

1 (f) MAINTENANCE – MISCELLANEOUS – Sub-Account - 00

2 Fontana's estimate for Sub-Account -00 Miscellaneous for all accounts that
3 have recorded costs in this sub-account is \$200,600. Fontana based this estimate
4 on inflation adjusted five-year average of costs (2006 – 2010). DRA's estimate is
5 \$178,300. DRA agrees with using a five-year adjusted average except for in
6 Account 761 – Maintenance of T&D Mains Sub-Account-00 Miscellaneous.

7 DRA used a three-year average (2008 – 2010) in this sub-account because
8 of the wide range of recorded costs in years 2006 and 2007.²⁷ Recorded costs in
9 2006 are extremely low (\$2,770) and recorded costs in 2007 are extremely high
10 (\$127, 512) compared to the other years that Fontana used in its five-year average.
11 When DRA questioned the high costs recorded in 2007, Fontana's reply to DRA's
12 Data Request explains that there was a major water main repair located in a
13 heavily traveled intersection which totaled approximately \$110,000 for this one
14 contracted repair in 2007.²⁸ Fontana does not adequately explain why this
15 unusually high cost of repairs will likely occur in this rate case cycle, nor why it
16 should be included in a five-year average when it was such a higher cost compared
17 to other years. Therefore, DRA uses a three-year (2008 – 2010) average to derive
18 its estimate of \$178,300, which reflects more recent and stabilized costs in this
19 Miscellaneous Sub-Account-00. DRA recommends that the Commission adopt
20 DRA's estimate.

21 **D. CONCLUSION**

22 DRA recommends that the Commission adopt its O&M expense estimates
23 as shown on Table 3-1.

²⁷ Fontana's workpapers, tab EX5a, page 33, Account 761, Sub-Account-00.

²⁸ Fontana's response to DRA's Data Request ALC-005, question #2 a-1.

TABLE 3-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

OPERATION & MAINTENANCE EXPENSES

TEST YEAR		2012 - 2013		
Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues less Misc Rev	57,227.1	57,619.2		
Uncollectible rate	<u>0.46480%</u>	<u>0.47320%</u>		
Uncollectibles	266.0	272.7	6.7	2.5%
<u>Operation Expenses</u>				
Purchased Water	11,642.7	11,600.3	(42.4)	-0.4%
Purchased Power	4,672.7	4,661.4	(11.3)	-0.2%
Purchased Chemicals	893.7	877.6	(16.1)	-1.8%
Payroll	3,759.5	3,872.3	112.8	3.0%
Materials & Supplies (incl. postage)	227.8	246.7	18.9	8.3%
Conservation Expenses	154.0	574.0	420.0	272.7%
Transportation	560.6	560.6	0.0	0.0%
Uncollectibles	266.0	272.7	6.7	2.5%
Outside Service	240.9	240.9	0.0	0.0%
Utilities & Rents	51.4	51.4	0.0	0.0%
Miscellaneous	94.2	94.2	0.0	0.0%
Total Operation Expenses	22,563.5	23,052.0	488.5	2.2%
<u>Maintenance Expenses</u>				
Payroll	1,053.0	1,084.6	31.6	3.0%
Materials & Supplies	536.7	641.6	104.9	19.5%
Transportation	297.8	297.8	0.0	0.0%
Outside Service	218.0	234.8	16.8	7.7%
Utilities & Rents	7.8	7.8	0.0	0.0%
Miscellaneous	178.3	200.6	22.3	12.5%
Total Maintenance Expense	2,291.6	2,467.3	175.7	7.7%
Total O & M Expenses (incl uncoll)	24,855.1	25,519.3	664.2	2.7%
<u>At proposed rates</u>				
Operating Revenues less Misc Rev	65,532.1	65,783.9		
Uncollectible rate	<u>0.46480%</u>	<u>0.47320%</u>		
Uncollectibles	304.6	311.3		
Total O & M Expenses (incl uncoll)	24,893.7	25,557.9	664.2	2.7%

CHAPTER 4: ADMINISTRATIVE AND GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Administrative and General ("A&G") expenses for Fontana.

B. SUMMARY OF RECOMMENDATIONS

DRA estimates \$3,446,900 for Test Year 2012-2013 while Fontana estimates total expenses of \$3,194,300. DRA's estimate exceeds Fontana's by \$252,600 or 7.3%. The differences are due mainly to different methodologies to derive estimates, correction of errors found in Fontana's workpapers, and the lower estimate for Administrative Charges Transferred resulting from lower plant additions recommended by DRA.

C. DISCUSSION

DRA analyzed Fontana's reports, supporting workpapers, responses to data requests, other information provided in meetings and e-mails, and Fontana's methods of estimating A&G expenses before making its own independent estimates.

Methods of Forecasting

Some of Fontana's forecasts for A&G expenses are made by individual accounts, such as: Account No. 793 – Property Insurance, Account No. 794 - Injuries and Damages Insurance, Account No. 795 - Employee Pensions & Benefits, Account No. 796 – Local Franchise Tax, Account No. 797 – Regulatory Expense, and Account No. 812 - Administrative Charges Transfers. Other expenses are broken down by sub-accounts: Miscellaneous (00), Payroll, (01), Materials and Supplies (02), Transportation (04), Outside Services (05), Utilities and Rents (06) Postage (07), and Dues and Subscription (09).

Fontana uses a five-year average of inflation-adjusted historical expenses from 2006 to 2010 as the basis to develop Test Year and Escalation Year estimates in some accounts and sub-accounts as discussed individually below. However, the estimate for sub-accounts for Transportation (04) and Utilities & Rents (06) is based on escalated 2010 recorded expenses.

Inflation Factors and Escalation

Except for the accounts where a different methodology has been used, both Fontana and DRA estimate Test Year 2012-2013 expenses as the inflation adjusted five-year average of recorded expenses of calendar years 2006 to 2010. To escalate the constant dollar five-year average of recorded costs to test year estimates, Fontana has used the inflation factors from DRA's Energy Cost of Service Branch ("ECOS") Escalation Memorandum dated April 30, 2011.

To avoid comparing differences in DRA's and Fontana's estimates that result solely from application of different ECOS Memoranda escalation factors, DRA has retained the inflation estimates used by Fontana in deriving Test Year and Escalation Year expense estimates. DRA will update these estimates during the production of the Joint Comparison Exhibit with the most recent ECOS Memorandum data available at that time.

1) PAYROLL EXPENSE – Sub-Account-01

See discussion on Payroll in Chapter 3 – Operations and Maintenance Expenses, Section C.1.d.

2) TRANSPORTATION – Sub-Account-04

Transportation sub-account-04 expenses are recorded only in Account No. 791 – A & G Payroll. Fontana escalates the recorded 2010 transportation expenses by the composite non-labor inflation factors to estimate \$17,300 for Test Year 2012-2013. The recorded 2010 amount was used instead of an average of

1 previous years because it is more representative of expectations for future years.
2 The two major reasons in using the most recent recorded year are the price of fuel
3 and the number of vehicles. DRA agrees with this method and finds the estimate
4 reasonable. DRA recommends no adjustment to this estimate.

5 **3) ADMINISTRATIVE CHARGES TRANSFERRED**

6 Administrative expenses that are transferred to construction costs are
7 recorded in Fontana's Administrative Charges Transferred in Account No. 812.
8 Fontana's estimate is -\$1,296,500 for Test Year 2012-2013. This is calculated by
9 using the capital overhead percentages applied to the plant additions expected for
10 each year.

11 DRA agrees with this methodology but DRA's estimate is -\$559,900 due to
12 changes DRA is making to plant additions. DRA recommends that the
13 Commission adopt this methodology and that the final estimate for this account be
14 adjusted to reflect the adopted plant additions amount.

15 **4) MATERIALS & SUPPLIES – Sub-Account-02**

16 Fontana estimates \$93,300 for Test Year Materials & Supplies sub-account-
17 02 expense based on an inflation-adjusted five-year average of recorded costs
18 from 2006 to 2010. Materials and Supplies sub-account also includes Postage (07)
19 which is estimated by escalating the last recorded year (2010), and Dues and
20 Subscriptions (09) which is estimated by inflation adjusted five-year (2006 –
21 2010) average. DRA agrees with this method and recommends no adjustment.

22 **5) PROPERTY, INJURIES & DAMAGES INSURANCE**

23 Fontana's all inclusive business package insurance, or "Umbrella" policy
24 includes coverage for general liability, employment practices liability, automobile

1 liability, and property damage.²⁹ All are annual policies renewed as of March 1st
2 each year. Total insurance expenses are estimated in Account No. 793 – Property
3 Insurance, and Account No. 794 – Injuries and Damages Insurance. Fontana
4 based its insurance estimates on the recorded 2010 expense, increased by the 5%
5 anticipated annual increase provided to Fontana by its insurance broker,
6 Edgewood Partners Insurance Center.

7 To derive each year insurance estimate, Fontana applies the 5% insurance
8 broker's estimated annual increase to the 2010 recorded insurance costs beginning
9 March 1st for calendar years 2012, and the same increase beginning March 1st in
10 2013 and in 2014. The total cumulative cost for the calendar year 2012 increased
11 by 2% from 2011, and 5% for calendar year 2013, and 2014.³⁰ The total for each
12 year is then allocated by the percentage portion that each component comprises of
13 the total insurance costs per year. Property Insurance portion is 3.597% of the
14 total insurance costs for each year, and Injuries and Damages Insurance is
15 40.229%.³¹ Using these percentages Fontana calculates the Property Insurance
16 portion and the Injuries and Damages Insurance portion of the total insurance costs
17 for each year. Fontana forecasts Property Insurance of \$32,515 for Test Year, and
18 \$34,141 for Escalation Year.

19 Workers' Compensation Insurance is a component of Injuries and Damages
20 Insurance (Account 794). Fontana calculates Workers' Compensation based on
21 an inflation adjusted five-year average (2006 – 2010). Fontana then adds
22 Workers' Compensation to the Injuries and Damages component to estimate a
23 total of \$481,608 for calendar year 2012, and \$502,151 for year 2013. Fontana
24 takes the average of calendar year 2012 and 2013 costs to calculate the estimate of

²⁹ Direct Testimony of Robert W. Nicholson, Exhibit SG-8, pg. 1-2.

³⁰ Direct Testimony of Robert W. Nicholson, Exhibit SG-8, pg 1-2, Attachment A.

1 \$33,328 for Property Insurance and \$491,880 for Injuries and Damages Insurance.
2 These two amounts total to \$525,208, which is the total estimated Insurance
3 Expense for Test Year (Table 4-1).

4 After reviewing these calculations, DRA concurs with Fontana's method to
5 calculate the Property Insurance and the Injuries and Damages Insurance portion
6 of this insurance account, but disagrees with the methodology used to estimate the
7 Workers' Compensation Insurance. Fontana's workpapers ³² show the five-year
8 recorded data used in the five-year averaging as follows:

9 Workers' Compensation Account -794F

10	2006	2007	2008	2009	2010
11	\$173,802	\$117,080	\$99,697	\$88,739	\$83,519

12 The historic data depicts a constant downward trend since 2006, and the
13 trend will more likely continue in the future. Therefore, using a five-year average
14 is not a good measure for future estimates. DRA uses the most recent expense
15 level from 2010 as a base and uses the same CPI-U escalation factor Fontana uses
16 to derive calendar year estimates for the Workers' Compensation portion of total
17 Insurance costs.

18 Injuries and Damages Insurance calendar year estimates and Workers'
19 Compensation Insurance calendar year estimates are added together with the
20 Property Insurance to estimate total calendar year insurance costs. Total calendar
21 year insurance costs for 2012 and 2013 are then averaged to derive DRA's Test
22 Year estimate of \$494,500 compared to Fontana's estimate of \$525,200. DRA
23 recommends adoption of DRA's Insurance estimates.

(continued from previous page)

³¹ Fontana workpapers for Administrative and General Expenses, tab EX7, or page 37.

³² Fontana's workpaper, tab EX7, page 37.

1 **6) EMPLOYEE PENSIONS & BENEFITS**

2 Fontana's estimate for Employee Pensions & Benefits in Account No. 795
3 for the Test Year is \$2,272,700. DRA recommends \$2,201,900 or \$70,800 (3.2%)
4 less than Fontana's estimate. Each component of Pension and Benefits account is
5 calculated differently as explained below. The components included in Account
6 No. 795 - Pension and Benefits are: vacation, holiday and sick leave, pensions,
7 health insurance, dental insurance, life insurance, long term disability insurance,
8 and uniform allowance. After each calendar year's (2012, 2013, 2014) component
9 is estimated, the estimates are averaged together to derive the fiscal Test Year
10 Pension and Benefits total costs. These Test Year estimates are then multiplied by
11 the ratio of 2010 expensed portion to the total recorded costs for 2010.³³ This
12 amount is the total expensed cost for Pension and Benefits as shown on Table 4-1.

13 (a) Vacation, Holiday and Sick Leave

14 Fontana requests \$824,647 for expenses associated with vacation, holiday
15 and sick leave for Test Year 2012-2013. Fontana bases this amount on the
16 company's payroll estimates. DRA's recommended revisions to payroll costs
17 discussed previously results in DRA's recommended vacation, holiday and sick
18 leave expense of \$817,777.

19 (b) Pensions

20 Fontana's company pension plan is a 401(k) plan. Employees become
21 eligible for company contributions to their 401(k) account after one year of
22 service, and are referred to as 401(k) eligible payroll. Fontana contributes to the
23 401(k) plan in two ways. First, by making an annual contribution to each eligible
24 employee's 401(k) account each January based on the 401(k) eligible payroll.

³³ Fontana application workpapers, tab EX7a, page 38.

1 This is called its discretionary contribution, which is set at 6% of the company's
2 total 401(k) eligible payroll. Second, Fontana contributes to the 401(k) plan by
3 matching 50% of each employee's eligible salary deferrals into the plan. Salary
4 deferrals of up to 6% of an employee's 401(k) eligible salary are eligible for this
5 matching contribution. The total 401(k) eligible payroll is determined by using
6 the 2010 recorded 401(k) eligible payroll and applying projected general wage
7 increases of 1.6% in 2012, 1.9% in 2013 and 2.0% in 2014. Fontana then adds in
8 the 401(k) eligible salaries of current employees who will become eligible in
9 2012, 2013 and 2014. Fontana then multiplied the resulting 401(k) eligible payroll
10 by 6% for the discretionary and 2.01% for matching contributions.³⁴ Thus,
11 Fontana calculates an increase in pension costs of 6.61% in 2012 and 2.02% in
12 2013, and 2.02% in 2014.

13 Fontana's estimate of Pension expense is \$415,154 for the Test Year. DRA
14 agrees with the estimate and recommends no adjustment.

15 (c) Health Insurance

16 Fontana estimates \$895,138 for expenses associated with health insurance
17 for Test Year 2012-2013. Fontana's Health Insurance includes both Blue Cross
18 and Kaiser Health plans. Both health insurance costs change beginning July of
19 each year.

20 In determining future health insurance costs for Blue Cross, Fontana uses
21 recorded health costs through April 2011, adds premiums associated with eligible
22 employees who were not reflected in the April 2011 premiums to derive the 2011
23 year end total. Next, Fontana uses the Blue Cross premium rate increase of 10.7%
24 expected in July 2012 to calculate the total estimated Blue Cross insurance cost for

³⁴ Direct Testimony of Robert W. Nicholson, Exhibit SG-8, page 3, Attachment B.

1 year end 2012. Fontana calculates total annual premiums in the same manner for
2 2013 and 2014 using the projected rate increases of 10.7% for the Blue Cross plan.

3 Kaiser Health plan costs are derived in a similar manner using the known
4 increase of 3.5% effective July 2011, projected increase of 10.7% to be effective
5 July 2012, projected 10.7% to be effective 2013, and 10.7% for 2014. After
6 adding the total annual projected premiums for Blue Cross and Kaiser together,
7 the total annual change costs were estimated at 10.47% in 2011, 8.39% in 2012,
8 and 10.7% in 2013 and 2014.³⁵ These percentages are applied to the recorded
9 2010 health care costs to calculate total annual health insurance estimates 2011,
10 2012, 2013 and 2014.³⁶

11 DRA did use the Fontana 10.47% known increase for 2011, but used the
12 October 2011 IHS Global Insight health insurance percent change of 3.9% for
13 2012, 4.6% for 2013 and 6.2% for 2014. IHS Global Insight's U.S. economic
14 outlook information is used in the monthly Escalation Memorandum provided by
15 DRA's Energy Cost of Service Branch (ECOS) to project future CPI-U rates. As
16 a result, DRA's recommends a health insurance expense of \$833,216 for Test Year
17 2012-2013, compared to Fontana's \$895,138 estimate.

18 (d) Dental Insurance

19 A portion of Fontana's Pension and Benefits includes dental insurance
20 expenses of \$67,768 for the Test Year. In determining projected dental insurance
21 costs, Fontana uses recorded dental insurance premiums paid through April 2011,
22 adds any employees not reflected in the April 2011 premiums, then applies the
23 known premium rate increases of 4.7% starting in July 2011 to estimate the total

³⁵ Direct Testimony of Robert W. Nicholson, Exhibit SG-8, pg 3-4, Attachment C.

³⁶ Fontana workpapers, tab EX7a, page 38.

1 Dental Insurance cost for the year. For future year estimates, Fontana applied the
2 projected insurance rate increase of 1.6% in 2012 and 1.9% in 2013 beginning in
3 July of each year to calculate the annual dental insurance premiums. This
4 determines the overall dental insurance increase from calendar year 2011 to 2012
5 of 3.33%, a 1.75% increase from 2012 to 2013, and a 1.75% from 2013 to 2014.³⁷
6 These annual increase percentage rates are applied to the recorded 2010 costs to
7 derive the Test Year Dental Insurance estimate of \$67,768. DRA agrees with this
8 method, and recommends no adjustment.

9 (e) Life Insurance

10 Fontana requests \$29,258 for expenses associated with life insurance for
11 the Test Year. The company projects increases in overall life insurance expenses
12 of 4.95% in 2012, 6.25% in 2013, and 6.25% in 2014.³⁸ DRA agrees with
13 Fontana's estimate and recommends a life insurance expense of \$29,258 for Test
14 Year 2012-2013.

15 (f) Long Term Disability

16 Fontana estimates Long Term Disability insurance of \$19,821 for the 2012-
17 2013 Test Year. The company projects increases in long term disability expenses
18 of 5.48% in 2011, 1.88% in 2012, and 1.90% in 2013.³⁹ DRA discovered a
19 calculation error in the workpapers because the 5.48% rate for 2011 should be a
20 negative percentage due to a decrease in total annual costs from 2010 to 2011.
21 DRA corrected this and recommends a long term disability insurance expense of
22 \$17,762 for Test Year.

³⁷ Direct Testimony of Robert W. Nicholson, Exhibit SG-8., pg 4, Attachment E.

³⁸ Ibid, page 5, Attachment F.

³⁹ Ibid, page 5, and Attachment G.

1 (g) Uniforms

2 Fontana requests \$20,938 for expenses associated with uniforms for Test
3 Year 2012-2013. The company projects increases in uniform expenses by the
4 composite non-labor inflation rate of 2.6% in each year. DRA finds Fontana's
5 methodology and estimate reasonable and should be adopted.

6 Pension and Benefits account total estimate by Fontana is \$2,272,700 and
7 DRA's estimate is \$2,201,900 for Test Year 2012-2013. DRA's estimate is
8 reasonable and should be adopted.

9 **7) REGULATORY COMMISSION EXPENSES**

10 Regulatory expense accounted in Account No.797 includes outside legal
11 fees, engineering and expert witnesses' fees, reproduction, shipping and
12 newspaper publishing costs, and other expenses associated with this General Rate
13 Case, and other regulatory proceedings before the Commission.⁴⁰ Fontana's
14 estimate for Test Year is \$363,300. The total General Rate Case projected
15 expense is \$1,090,000, which is spread over three years (2012 to 2014) for this
16 rate case cycle at \$363,300 annually. This account includes no employees'
17 salaries or other regularly incurred costs, but does include \$860,000 projected for
18 outside legal fees.

19 The adopted settlement in the previous General Rate Case allowed
20 \$398,200 in rates annually for the three years of the last rate case starting in Test
21 Year 2009-2010.⁴¹ For comparison purposes, DRA calculated a four-year
22 average of inflation adjusted recorded expenses from 2007 to 2010 to be \$361,300.
23 Both of these figures are consistent with Fontana's estimate of \$363,300 annual

⁴⁰ Direct Testimony of David M. Batt, Exhibit SG-3, pg. 12-14, and Attachment D.

⁴¹ D.09-06-027, page 10, Settlement Agreement, page18.

1 estimate for regulatory expenses for the Test Year and both escalation years.
2 Although DRA accepts Fontana's forecasted dollar amount for Regulatory
3 Commission Expenses, because it is consistent with the four-year average of
4 inflation-adjusted recorded expenses, DRA does not agree with Fontana's method
5 for calculating this estimate. The Regulatory Commission Expense should be a
6 prospective test year estimate and it should not be based upon actual incurred
7 expenses for this rate case as that would constitute retroactive ratemaking. DRA
8 finds Fontana's Test Year estimate to be reasonable and recommends no
9 adjustment.

10 **8) MISCELLANEOUS EXPENSES – Sub-Account-00**

11 Fontana's Miscellaneous expenses sub-account-00 consists of expense
12 estimates from several accounts, but primarily it is the cost of legal services and
13 miscellaneous (00) expense sub-accounts from Account No. 798 – Outside
14 Service.⁴² Fontana calculated this expense by taking an inflation-adjusted five-
15 year average of recorded expenses from 2006-2010 for all accounts with this
16 sub-account component including the legal services from Account No. 798. For
17 the miscellaneous sub-account in Account No. 798 Fontana's workpapers⁴³
18 contain an error. This error was corrected in Fontana's response to Data Requests
19 ALC-002 and ALC-003 with an attachment that provided the corrected workpaper
20 (EX7a) for Account No. 798. The data request response corrected some of the
21 recorded costs in 2008, 2009 and 2010. These corrections significantly lowered
22 the resulting five-year average (2006 – 2010) used in estimating the miscellaneous
23 sub-account expense.

⁴² Fontana workpapers for Administrative and General Expenses, tab EX7a, or page 38.

⁴³ Ibid.

Fontana's application estimate for miscellaneous expenses sub-account-00 is \$742,800 for the Test Year 2012-2013. With the corrections described above the correct Fontana estimate is \$372,100 for the Test Year. DRA concurs with Fontana's corrected estimate of \$372,100, finds it reasonable, and recommends it should be adopted.

9) OUTSIDE SERVICES - Sub-Account -05

Fontana's Outside Services sub-account -05 is expenses from two accounts, Account 792 – Office Supplies and Other Expenses, and Account 805 – Maintenance of General Plant. By using an inflation-adjusted five-year average of recorded expenses from 2006 to 2010, Fontana calculates an estimate of \$59,000 for Test Year 2012-2013. DRA agrees with this method, finds the results reasonable, and recommends no adjustment.

10) UTILITIES & RENTS – Sub-Account-06

Fontana calculates Utilities & Rents sub-account expenses by using the recorded 2010 costs, then escalating by their composite non-labor inflation factor to estimate \$10,600 for the Test Year 2012-2013. Utilities & Rents is a sub-account under Account No. 792 – Office Supplies and Other Expenses, and consists primarily of purchased power expense for lighting, cooling, and heating of office buildings and service facilities. DRA agrees with this estimate and recommends that it should be adopted by the Commission.

11) FRANCHISE FEES – Account No. 796

See discussion on Local Franchise Fees in Chapter 5 – Taxes Other Than Income.

12) Allocated General Office Expenses

DRA uses the allocated General Office expenses of \$4,238,000 for Fontana from the Proposed Decision in A.10-07-019 (San Gabriel Valley Water Company – Los Angeles County Division's General Rate Case.) See Table 6-1.

1 **D. CONCLUSION**

2 DRA recommends that the Commission adopt its Administrative and
3 General expense estimates of \$3,446,900 for the Test Year 2012-2013 as opposed
4 to Fontana's \$3,194,300 request.

TABLE 4-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues less Misc Rev	57,227.1	57,619.2		
Local Franchise Rate	0.6857%	0.6857%		
Franchise tax	392.4	395.1	2.7	0.7%
Payroll	394.8	406.6	11.8	3.0%
Transportation Expenses	17.3	17.3	0.0	0.0%
Admin Charges Trsf	(559.9)	(1,296.5)	(736.6)	131.6%
Materials & Supplies (incl. postage)	93.3	93.3	0.0	0.0%
Insurance	494.5	525.2	30.7	6.2%
Employee Pensions & Benefits	2,201.9	2,272.7	70.8	3.2%
Regulatory Commission Expenses	363.3	363.3	0.0	0.0%
Miscellaneous Expenses	372.1	742.8	370.7	99.6%
Outside Services	59.0	59.0	0.0	0.0%
Utilities & Rents	10.6	10.6	0.0	0.0%
Total A & G Expenses	3,446.9	3,194.3	(252.6)	-7.3%
(incl. local Fran.)	3,839.3	3,589.4	(249.9)	-6.5%
<u>At proposed rates</u>				
Oper. Rev. less uncoll.	65,532.1	65,783.9		
Local Franchise Rate	0.6857%	0.6857%		
Fran. tax	449.3	451.1	1.7	0.4%
Total A & G Expenses	3,446.9	3,194.3	(252.6)	-7.3%
(incl. local Fran.)	3,896.2	3,645.4	(250.9)	-6.4%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of Taxes Other Than Income for Fontana for Test Year 2012-2013 and Escalation Years. Taxes Other Than Income consists of Ad Valorem tax (property tax) and payroll taxes. DRA's and Fontana's estimates of Taxes Other Than Income for Test Year 2012-2013 are included in Table 5-1.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimates of Taxes Other Than Income are different from those estimated by Fontana. The differences are due primarily to the differences in estimated ratebase and payroll expenses. In addition, DRA applies the most recent payroll tax and ad valorem tax rates in effect. These adjustments are discussed in detail in the following sections.

C. DISCUSSION

1) Ad Valorem Taxes

Fontana estimated Ad Valorem Taxes by first dividing its 2010 Ad Valorem Taxes by its estimate 2010 ratebase, then escalating that ratio by 2% per year before applying it to the Test Year and Attrition Year ratebase numbers. Fontana explained that it escalated the ratio by 2% because this is the maximum increase the County Tax Assessor is permitted to increase the assessed value of company property by state law.

California Revenue and Tax Code, section 51 (C) states that "any assessment year commencing on or after January 1, 1998, the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the California

Department of Industrial Relations.” DRA examined the fluctuations of this calculated ratio over a 5-year period. The 2010 ratio is lower than the 2006, 2007, and 2008 ratios because the market value of real property had decreased in 2009. DRA uses the 2010 ratio of 1.314% in calculating Test Year and Attrition Year estimates for Ad Valorem taxes because of the uncertainty that property values are unlikely to increase to 2006-2008 levels during these financially difficult times.

2) Payroll Taxes

Both Fontana and DRA estimated payroll taxes based on the projected payroll expenses and the currently available information from Federal and State payroll tax publications. Payroll taxes consist of Federal Insurance Contributions Act, Federal Unemployment Tax Act, and State Unemployment Insurance. There are two components of Federal Insurance Contributions Act taxes—Social Security and Medicare. The following are the latest tax rates and wage limits authorized by Federal and State law:

(a) Social Security – 6.20% for the first \$110,100 of total wages for 2012

(b) Medicare – 1.45% of total wages for 2011

(c) Federal Unemployment Tax Act – 0.8% for the first \$7,000 of total wages for 2011

(d) State Unemployment Insurance – 1.20% for the first \$7,000 of total wages for 2011

Differences between DRA and Fontana estimates for the Test Year 2012-2013 and Attrition Year 2013-2014 are attributable to the differences in payroll estimates and Fontana’s projected increases in the applicable Social Security base amount. DRA does not agree with the use of the projected new base because it has not been adopted by the Federal government. However, DRA is using the latest 2012 Social Security base amount that was announced in an October 19, 2011 U. S. Social Security Administration press release.

1 **3) Local Franchise Fees**

2 Fontana is using a new method to calculate its local franchise fees. It uses a
3 five-year average of recorded local franchise taxes divided by Total Billed
4 Revenues, less Miscellaneous Revenue to estimate the local franchise taxes in this
5 General Rate Case. The reason Fontana is removing Miscellaneous Revenue is
6 because it is not included in the calculation of Fontana's local franchise fees.
7 DRA has reviewed Fontana's revised method and agrees that this new method
8 provides a better method of calculating local franchise fees. Therefore, both DRA
9 and Fontana use the same local franchise tax rate of 0.6857% in this rate case.

10 The differences between DRA's and Fontana's estimates for local franchise
11 taxes are due to the differences in DRA's and Fontana's estimated Total Billed
12 Revenues less Miscellaneous Revenue in the respective years, and Fontana
13 inadvertently used the adjusted Total Billed Revenues without removing the
14 Miscellaneous Revenue in its calculation. DRA corrected this oversight.

15 **D. CONCLUSION**

16 DRA recommends the Commission adopt DRA's estimates for Taxes Other
17 Than Income as shown in Table 5-1 for Test Year 2012-2013.

TABLE 5-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Ad Valorem taxes	1,742.7	2,001.4	258.7	14.8%
Local Franchise (pres rates)	392.4	395.1	2.7	0.7%
Local Franchise (prop rates)	449.3	451.1	1.7	0.4%
Payroll Taxes	492.9	498.1	5.2	1.1%
Taxes other than income (present rates)	2,628.0	2,894.6	266.6	10.1%
Taxes other than income (proposed rates)	2,684.9	2,950.6	265.6	9.9%
State Tax Depreciation	8,582.6	9,468.1	885.5	10.3%
Transp. Dep. Adj.	0.0	0.0	0.0	0.0%
State Tax Deduct(pres rates)	8,582.6	9,468.1	885.5	10.3%
State Tax Deduct(prop rates)	8,582.6	9,468.1	885.5	10.3%
Federal Tax Depreciation	6,207.6	6,608.9	401.3	6.5%
State Income Tax	854.6	909.2	54.6	6.4%
Fed. Tax Deduct.(pres rates)	7,062.2	7,518.1	455.9	6.5%
Fed. Tax Deduct.(prop rates)	7,062.2	7,518.1	455.9	6.5%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This Chapter presents DRA's analysis of Federal and State Income Taxes for Fontana. Table 6-1 compares DRA's and Fontana's tax deductions and tax estimates for Test Year 2012-2013 under the present rates. Likewise, Tables 6-2 compares DRA's and Fontana's tax deductions and tax estimates for Test Year 2012-2013 under the proposed rates.

B. SUMMARY OF RECOMMENDATIONS

The differences between DRA and Fontana's estimates are due primarily to differences in revenues, expenses, and rate base. Additionally, DRA uses a different methodology to compute the qualified Domestic Production Activities Deduction than that used by Fontana. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("Tax Relief Act") provides for 100% bonus depreciation on certain business property put into service after September 8, 2010 and before January 1, 2012. It also provides for 50% bonus depreciation for property placed into service thereafter and before January 1, 2013, and for property placed into service in 2013 where construction begins prior to January 1, 2013. While Fontana's tax depreciation is normalized, the difference between tax and book depreciation federal income taxes is capitalized as a deferred tax deduction from rate base. Fontana included the bonus tax depreciation in calculating its deferred taxes. The income tax differences are discussed below.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Act of 1981 ("ERTA"). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") have been incorporated in the tax

1 deduction estimates. In addition, the provisions of the Tax Reform Act of 1986
2 (“TRA 86”) have been estimated and included into this General Rate Case in
3 accordance with the requirements of D.87-09-026 dated September 10, 1987,
4 D.87-12-028 dated December 9, 1987 and D.88-01-061 dated January 28, 1988.
5 DRA also included the impacts of the American Jobs Creation Act, commonly
6 known as the Domestic Production Activities Deduction. Finally, DRA
7 incorporated the effect of the Tax Relief Act that provides for 100% bonus
8 depreciation on certain business property put into service after September 8, 2010
9 and before January 1, 2012. It also provides for 50% bonus depreciation for
10 property placed into service thereafter and before January 1, 2013, and for
11 property placed into service in 2013 where construction begins prior to January 1,
12 2013.

13 Some of the provisions of TRA 86 have been incorporated into California
14 Corporation Franchise Tax (“CCFT”) law in the California Bank and Corporation
15 Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).
16 The provisions have been estimated and integrated into the CCFT calculations for
17 this General Rate Case.

18 CCFT and Federal Income Taxes are calculated using estimated present and
19 proposed revenues, tax-deductible expenses, interest, and tax depreciation.

20 **1) Ratemaking Interest Deduction**

21 To calculate the ratemaking interest, Fontana used its Weighted Average
22 Rate Base multiplied by the Authorized Weighted Cost of Debt. DRA used the
23 same method.

24 Differences between DRA’s and Fontana’s estimates are attributable to the
25 differences in Weighted Average Ratebase estimates.

1 **2) State Corporate Franchise Taxes**

2 State Tax Depreciation is calculated using flow-through depreciation.
3 Taxes are based upon actual tax depreciation used in calculating the State
4 Corporate Franchise Tax. Adjustments have been made to recognize the
5 difference between Fontana’s requested plant additions and DRA’s recommended
6 plant additions.

7 Fontana used a State Corporation Franchise Tax rate of 8.84%. DRA
8 verified this rate in the 2011 Guidebook to California Taxes which states that
9 “Corporations, other than banks and financial institutions, are taxed at the rate of
10 8.84%.” In addition to adjusting the State Tax Depreciation because of differences
11 in rate base additions, DRA also took into consideration differences in operating
12 revenue, deductible expenses, taxes other than income, and tax-deductible interest.

13 Besides calculating its State Corporate Franchise Taxes as discussed above,
14 Fontana, added its Amortization of Contributions in Aid of Construction Taxes to
15 its State Corporate Franchise Taxes. This was also done to its Federal Income
16 Taxes. DRA treated the Contributions in Aid of Construction Taxes as an income
17 item in the calculation of the State Corporate Franchise Taxes and multiplied it by
18 the State Corporate Franchise Tax rate. See the discussion included in the Federal
19 Income Taxes section below.

20 **3) Federal Income Taxes**

21 (a) Federal Tax Depreciation

22 Federal Tax Depreciation is calculated on a Normalized basis. The
23 California Public Utilities Commission calculates Federal Income Taxes using
24 book depreciation and calculated deferred taxes based upon the tax difference
25 between book and tax depreciation. Adjustments have been made to the book
26 depreciation, recognized for ratemaking purposes, in the calculation of Fontana’s

1 recommended Federal Income Tax to reflect adjustments made by DRA to
2 Fontana's requested plant additions The impact of Fontana's Tax Depreciation
3 (during the bonus depreciation period) has been considered in calculating
4 Fontana's deferred tax deduction from recommended ratebase.

5 (b) State Corporate Franchise Fee Deduction

6 DRA reviewed Fontana's actual Federal Income Tax filings for 2008 and
7 2009. DRA verified that Fontana removed its prior year California Corporation
8 Franchise Taxes amounts from its Federal Income Tax calculation. DRA is not
9 taking exception to this deduction in this proceeding.

10 (c) Domestic Production Activities Deduction

11 Section 199 of the Internal Revenue Code (the "Code") was added by
12 Section 102 of the American Jobs Creation Act of 2004, and amended by Section
13 403(a) of the Gulf Opportunity Zone Act of 2005 and Section 514 of the Tax
14 Increase Prevention and Reconciliation Act of 2005. On June 1, 2006, the Internal
15 Revenue Service published the final regulations under Section 199, which
16 specifies the details of the Domestic Production Activities Deduction.

17 Beginning with taxable year 2010, Section 199 of the Code allows a
18 deduction equal to 9% of the lesser of (a) the Qualified Production Activities
19 Income of the taxpayer for the taxable year, or (b) taxable income (determined
20 without regard to Section 199) for the taxable year.

21 Fontana calculated its Projected Qualified Production Activities Income for
22 Test Year 2012-2013 to be \$7.5 million. This was multiplied by 52% (Fontana's
23 metered sales percentage), times 9% (the applicable Domestic Production
24 Activities Deduction rate), times 35% (Fontana's applicable Federal Income Tax
25 rate) to estimate Fontana's Domestic Production Activities Deduction.

1 DRA calculated Fontana's Domestic Production Activities Deduction using
2 the same method that Fontana calculated its 2009 Federal Tax Return Domestic
3 Production Activities Deduction but with DRA's Test Year 2012-2013
4 recommended revenues, expenses, and Federal Tax Depreciation. To allocate
5 recommended revenue and expenses between qualified and unqualified categories,
6 DRA used the same historic ratios Fontana used in its 2009 Federal Tax Return.
7 DRA then multiplied the lower of Qualified Income or Total Income by 9% (the
8 applicable Domestic Production Activities Deduction rate), times 35% (Fontana's
9 applicable Federal Income Tax rate).

10 (d) Federal Income Taxes

11 Both DRA and Fontana used a composite tax rate of 35% to calculate the
12 Federal Income Taxes.

13 The differences in estimates for Federal Income Taxes between DRA and
14 Fontana are due to differences in estimates for revenues, expenses, rate base, and
15 Domestic Production Activities Deduction for Federal Income Taxes purposes.

16 (e) Amortization of Contributions In Aid of Construction Tax

17 Fontana added the Amortization of Contributions in Aid of Construction
18 Tax directly to its Federal Income Tax calculation. DRA traced the Amortization
19 of Contributions in Aid of Construction Tax through Fontana's 2009 Federal
20 Income Tax filing. Fontana recognized its Amortization of Contributions in Aid
21 of Construction Tax as an Other Income on its Corporate Income Tax Form 1120.
22 After expenses are deducted from Fontana's taxable income, Fontana calculates its
23 taxes. Since the Amortization of Contributions in Aid of Construction Tax is
24 treated as a pre-tax income, DRA is multiplying this number by Fontana's tax rate
25 to arrive at the correct tax impact.

1 **D. CONCLUSION**

2 DRA recommends the Commission adopt DRA's estimates for Income
3 Taxes as shown in Tables 6-1 and 6-2 for Fontana.

TABLE 6-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

TAXES BASED ON INCOME

TEST YEAR 2012 - 2013

(PRESENT RATES)

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Operating revenues	57,696.1	57,619.2	(76.9)	-0.1%
Deductions:				
O & M expenses	24,855.1	25,519.3	664.2	2.7%
A & G expenses	3,446.9	3,194.3	(252.6)	-7.3%
G. O. Prorated expenses	4,238.0	4,238.0	0.0	0.0%
Bank Charges	56.3	56.3	0.0	0.0%
Taxes not on Income	2,628.0	2,894.6	266.6	10.1%
Interest	3,530.5	4,460.9	930.4	26.4%
Income before taxes	18,941.3	17,255.8	(1,685.6)	-8.9%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(8,582.6)	(9,468.1)	(885.5)	10.3%
Taxable income for CCFT	10,358.7	7,787.7	(2,571.1)	-24.8%
CCFT Rate	8.84%	8.84%		
CCFT	915.7	688.4	(227.3)	-24.8%
Amortization of CIAC Tax	1.2	13.9	12.7	1058.3%
Total CCFT	916.9	702.3	(214.6)	-23.4%
<u>Federal Income Tax</u>				
Tax Depreciation	6,207.6	6,608.9	401.3	6.5%
State Corp Franch Tax	854.6	909.2	54.6	6.4%
Taxable income for FIT	11,879.1	9,737.7	(2,141.5)	-18.0%
Am. Jobs Act Deduction	(787.3)	(122.9)	664.5	-84.4%
Adjusted Taxable Income	11,091.8	9,614.9	(1,476.9)	-13.3%
FIT Rate	35.00%	35.00%		
FIT	3,882.1	3,365.2	(516.9)	-13.3%
Amortization of CIAC Tax	17.6	50.3	32.7	185.8%
Total FIT	3,899.7	3,415.5	(484.2)	-12.4%
Total FIT & CCFT	4,816.7	4,117.8	(698.8)	-14.5%

TABLE 6-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

TAXES BASED ON INCOME

TEST YEAR 2012 - 2013

(AT PROPOSED RATES)

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Operating revenues	65,532.1	65,783.9	251.8	0.4%
Deductions:				
O & M expenses	24,893.7	25,557.9	664.2	2.7%
A & G expenses	3,446.9	3,194.3	(252.6)	-7.3%
G. O. Prorated expenses	4,238.0	4,238.0	0.0	0.0%
Bank Charges	56.3	56.3	0.0	0.0%
Taxes not on Income	2,684.9	2,950.6	265.6	9.9%
Interest	3,530.5	4,460.9	930.4	26.4%
Income before taxes	26,681.8	25,325.9	(1,355.9)	-5.1%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(8,582.6)	(9,468.1)	(885.5)	10.3%
Taxable income for CCFT	18,099.2	15,857.8	(2,241.4)	-12.4%
CCFT Rate	8.84%	8.84%		
CCFT	1,600.0	1,401.8	(198.1)	-12.4%
Amortization of CIAC Tax	1.2	13.9	12.7	1058.3%
Total CCFT	1,601.2	1,415.7	(185.4)	-11.6%
<u>Federal Income Tax</u>				
Tax Depreciation	6,207.6	6,608.9	401.3	6.5%
State Corp Franch Tax	854.6	909.2	54.6	6.4%
Taxable income for FIT	19,619.6	17,807.8	(1,811.8)	-9.2%
Am. Jobs Act Deduction	(1,483.9)	(122.9)	1,361.0	-91.7%
Adjusted Taxable Income	18,135.7	17,684.9	(450.8)	-2.5%
FIT Rate	35.00%	35.00%		
FIT	6,347.5	6,189.7	(157.8)	-2.5%
Amortization of CIAC Tax	17.6	50.3	32.7	185.8%
Total FIT	6,365.1	6,240.0	(125.1)	-2.0%
Total FIT & CCFT	7,966.3	7,655.7	(310.5)	-3.9%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

This Chapter presents DRA's recommendations on Fontana's plant-in-service estimates. The recommendations are based on DRA's review and analysis of Fontana's testimonies, application, capital budgets, workpapers, and responses to DRA's data requests. DRA also conducted a field investigation of Fontana's water system in August 2011. Tables 7-1 and 7-2 at the end of this Chapter show DRA's and Fontana's estimates for plant-in-service for the Test Year 2012-2013 and the Escalation Year 2013-2014.

This Chapter also addresses Fontana's requests to: (1) remove previously adopted ratebase adjustments (reductions) associated with the Walnut Avenue pipeline between Citrus Avenue and Sierra Avenue and the retaining wall at Plant F7; (2) implement a \$1.386 million In-Conduit Hydroelectric Generation project with Advice Letter treatment; and (3) recover Allowance for Funds Used During Construction of the new office building.

Regarding Fontana's request to remove previously adopted adjustments, DRA strongly opposes Fontana's attempts to reintroduce issues already decided by the Commission. DRA presents its analysis of these two projects to be complete, but stresses that this inclusion should not be misinterpreted as supporting re-litigation of issues that have already been decided by the Commission.

In the last General Rate Case, the Commission ordered a reasonableness review to be conducted in this General Rate Case for the Sandhill Water Treatment Plant Upgrade, the Office Complex, and the Fontana Union (Slemmer) settlement costs. DRA's analysis and recommendations regarding the Sandhill Water Treatment Plant Upgrade are presented in Chapter 15. DRA's analysis and

recommendations regarding the Office Complex and the Slemmer settlement costs are presented in Chapter 16.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that plant additions for specific projects in this General Rate Case be adjusted, disallowed, deferred, or covered under Advice Letters as described in Section C below. Based on these recommendations, DRA estimates a four-year (company-funded) capital budget that is 59% less than that requested by Fontana. Table 7-A below presents Fontana's and DRA's capital budget estimates for the calendar years 2011 through 2014. (These calendar years' capital budgets are converted to fiscal years' plant amounts for ratemaking purposes.)

Table 7-A
Fontana Water Company Division
Plant Additions (Company-Funded)
DRA's Recommended⁴⁴ and Fontana's Requested

Year	DRA	FONTANA	DRA's adjustment,	
2011	\$ 6,680,000	\$ 14,950,000	\$ (8,270,000)	-55%
2012	\$ 6,475,000	\$ 16,755,000	\$ (10,280,000)	-61%
2013	\$ 10,168,000	\$ 18,745,000	\$ (8,577,000)	-46%
2014	\$ 5,302,000	\$ 18,850,000	\$ (13,548,000)	-72%
Total	\$ 28,625,000	\$ 69,300,000	\$ (40,675,000)	-59%

Although DRA's recommended plant additions are less than those in Fontana's request, as shown in Table 7-A, DRA's recommendations do result in an increase of average utility plant-in-service per customer of 9.1% from 2010 to the Escalation Year 2013-2014. Alternatively, if adopted, Fontana's requested plant additions would result in a 26.3% increase in average utility plant-in-service per customer over the same time period. It should also be noted that the capital costs associated with projects where DRA is recommending Advice Letter

⁴⁴ Not including Advice Letter projects.

treatment are not included in the estimated four-year capital budget. If approved, these Advice Letter projects will result in further plant additions and corresponding customer rate increases throughout 2011 to 2014.

Figure 7-A presents a comparison of the recorded, Fontana-requested, and DRA-recommended average utility plant-in-service per customer from 2006 through 2011, the Test Year 2012-2013, and Escalation Year 2013-2014.

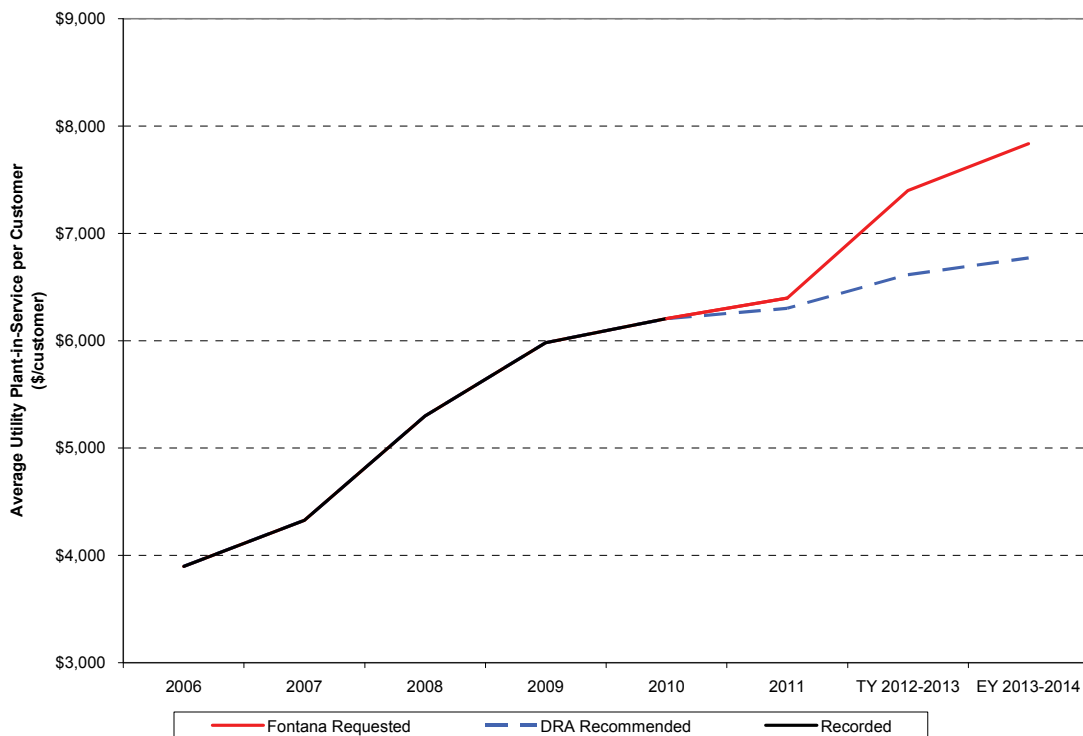


Figure 7-A: Average Utility Plant-in-Service per Customer Comparison⁴⁵

DRA strongly believes Fontana should practice prudent capital spending, particularly during the current economic downturn, while maintaining safe and

⁴⁵ The ‘Recorded’ and ‘Fontana Requested’ values were calculated similar to that in SG-4, Appendix A, Attachment 7, Page 2 but with “average utility plant-in-service” values instead of “average utility plant”. The “DRA Recommended” values were similarly calculated with Fontana’s projected number of customers and DRA’s recommended weighted average plant in service.

1 reliable service. Therefore, DRA recommends that the Commission adopt the
2 plant addition recommendations presented in this Report which will maintain
3 Fontana's ability to provide safe and reliable service and will result in a modest
4 increase in the average utility plant-in-service per customer.

5 ○ For the reasons stated above and the specific reasons presented
6 below in Section C, DRA recommends that the Commission adopt
7 DRA's plant addition estimates shown in Table 7-A above and
8 plant-in-service estimates in Tables 7-1 and 7-2 at the end of this
9 Chapter.

10 ○ DRA also recommends that the Commission maintain its previous
11 decision and reject Fontana's request to remove adopted rate base
12 adjustments associated with the Walnut Avenue pipeline between
13 Citrus Avenue and Sierra Avenue and the retaining wall at Plant F7.

14 ○ DRA recommends that the Commission reject Fontana's request to
15 implement the In-Conduit Hydroelectric Generation Pilot Program.

16 ○ DRA recommends that the Commission reduce Fontana's Allowance
17 for Funds Used During Construction estimates from \$375,851 to
18 \$70,238 to adjust for previously disallowed plant and to decrease the
19 applicable interest rate from its authorized rate of return to its short-
20 term interest rate.

21 **C. DISCUSSION**

22 In this Application, Fontana requests funds for improvement or
23 construction projects at fourteen existing and proposed plant sites. The total 2011-
24 2014 capital budget for these fourteen plant sites is \$34,925,000 (including
25 Contributions in Aid of Construction).

1 In addition to the projects at these fourteen plant sites, Fontana requests
2 plant additions related to Geographical Information System, miscellaneous plant
3 additions, mains, services, fire services, meters, fire hydrants, office equipment,
4 transportation equipment, communications equipment, and tools and equipment.
5 The total capital budget for these non plant-site specific plant additions is
6 \$48,375,000. This brings the total 2011-2014 capital budget to \$83,300,000
7 (\$34,925,000 plus \$48,375,000), of which \$69,300,000 is company-funded.

8 Lastly, Fontana's Application also includes requests to remove previously
9 adopted ratebase adjustments associated with the Walnut Avenue mains project
10 and the Plant F7 retaining wall, as well as a new request for Advice Letter
11 treatment for an in-conduit hydroelectric generation project.

12 DRA recommends that the plant requests in this General Rate Case be
13 adjusted, disallowed, deferred, or covered under Advice Letters as summarized in
14 the following Table 7-B.

Table 7-B
Fontana Water Company Division
DRA-Recommended Plant Adjustments
(Amounts shown are 2011-2014 total, unless otherwise indicated)

Item	Description	Fontana's Request	DRA's recommendations
1	Plant F10	\$ 55,000	Reject
2	Plant F13	\$ 105,000	Approve
3	Plant F14	\$ 265,000	Approve \$140,000
4	Plant F15	\$ 6,970,000	Reject
5	Plant F16	\$ 1,585,000	Reject
6	Plant F20	\$ 2,650,000	Reject
7	Plant F21	\$ 3,235,000	Keep as Advice Letter project
8	Plant F23 (a)	\$ 4,935,000	Keep as Advice Letter project at previously authorized cost (\$1,500,000: contributions)
9	Plant F49 (b)	\$ 4,000,000	Approve as Advice Letter project
10	Plant F53	\$ 2,300,000	Reject
11	Plant F54	\$ 720,000	Allow
12	Plant F56	\$ 3,070,000	Approve as Advice Letter project if receives Prop 84 funding
13	Plant F58	\$ 2,535,000	Reject
14	Plant F59	\$ 2,500,000	Reject
	Plant-site specific, subtotal:	\$ 34,925,000	
15	GIS	\$ 1,155,000	Allow \$900,000 and later start date
16	Miscellaneous	\$ 2,165,000	Allow \$1,735,000
17	Mains (c)	\$ 29,790,000	Allow \$16,520,000
18	Acct. 345-Services (d)	\$ 6,760,000	Allow \$5,400,000 plus \$360,000 in advances & contributions
19	Acct. 345A-Fire Services (e)	\$ 1,400,000	Allow
20	Acct. 346-Meters	\$ 4,800,000	Allow \$2,720,000
21	Acct. 348-Fire Hydrants (f)	\$ 840,000	Allow
22	Acct. 372-Office Equip.	\$ 295,000	Allow \$185,000
23	Acct. 373-Transportation	\$ 745,000	Allow
24	Acct. 376-Comm. Equip.	\$ 15,000	Allow
25	Acct. 378-Tools/Equip.	\$ 410,000	Allow
	Others, subtotal:	\$ 48,375,000	
26	Walnut Ave. pipeline #	\$ 1,158,602	Retain ratebase adjustment
27	Retaining wall at F7 #	\$ 537,868	Retain ratebase adjustment
28	Hydroelectric pilot ##	\$ 1,385,661	Reject

(a) \$1.5M in contributions

(b) \$3.4M in contributions

(c) \$6.3M in contributions & \$600k in adv.

(d) \$160k in advances & \$200k in contrib.

(e) \$1.4M in contributions

(f) \$0.4M in contributions & \$4k in advances.

Adopted adjustment (reduction) in last rate case.

Requested as advice letter project.

Each item listed in Table 7-B is discussed in detail in the following subsections. For convenience, each subsection heading number corresponds to the item number listed in the leftmost column of Table 7-B.

1 **1) Capital Project at Plant F10 (\$55,000 requested)**

2 Fontana requests \$55,000 to install a flow meter and a security camera at
3 Plant F10 in 2012. DRA recommends disallowance of this request.

4 (a) Flow Meter (\$30,000)

5 The utility claims the meter is needed to measure flows, verify the boosters
6 are running, and to allow the Central Control Operator to determine where flow is
7 required to boost pressure in zones of high demand. The meter is also needed to
8 measure annual production at this site.

9 These needs are part of the operation of Plant F10. According to the last
10 General Rate Case decision, D.09-06-027, Fontana has been authorized to maintain
11 a number of balancing and memorandum accounts. One of those accounts is for
12 “Operation and Maintenance Costs for Plant F10 Treatment Facility” as described
13 below:

14 *“SGV has accounted for all costs incurred and recoveries received*
15 *from third parties, specifically its O&M costs for operating the*
16 *wellhead treatment facility and the recovery of those costs from the*
17 *county of San Bernardino through 2007 pursuant to an agreement*
18 *resolving SGV’s claims related to groundwater contamination by*
19 *volatile organic compounds originating at a county-owned facility.*
20 *Those costs continue to be incurred and recovered from the*
21 *county.”⁴⁶*

22 The flow meter requested is part of the operation of Plant F10 with a wellhead
23 treatment facility. According to the current memorandum account discussed above
24 for this plant, the operation costs will continue to be incurred and recovered from
25 the county. Therefore, the flow meter cost should be included as an operation and
26 maintenance expense covered by the Operation and Maintenance Costs for Plant

⁴⁶ D.09-06-027, page 76.

1 F10 Treatment Facility memorandum account, and recovered from the County of
2 San Bernardino.

3 (b) Security Camera (\$25,000)

4 The utility claims Plant F10 is one of Fontana's most vulnerable sites because
5 it supplies up to five sources and delivers water into three different pressure
6 systems. Fontana states that Plant F10 is one of Fontana's primary distribution
7 facilities, and therefore security is very critical at such a plant susceptible to
8 contamination, vandalism and electrical failures. Fontana attempts to justify the
9 need for a security camera with pictures of the Plant F10 reservoirs taken in 2008
10 (before this rate case cycle) showing graffiti.

11 If Fontana is now concerned about the security of Plant F10 based on
12 evidence available in 2008, it should have pursued funds available under Proposition
13 50.⁴⁷ Fontana applied for \$1,750,000 in Proposition 50 funds and its application
14 was at the top of the priority list for those security funds. Fontana apparently
15 withdrew its application for the funds in 2009.⁴⁸ However, according to the
16 information from the Department of Public Health, the Fontana project is still listed
17 as the number one in priority for 2011 as of June 11, 2011.⁴⁹

⁴⁷ Among other funding priorities, Proposition 50 includes funding to secure and safeguard the integrity of the state's water supply from catastrophic damage or failure from terrorist acts or other deliberate acts of destruction. Eligible projects include: monitoring and early warning systems, fencing, protective structures, contamination treatment facilities, emergency interties, and communications systems.

⁴⁸ Letter dated January 4, 2010 to Tom Jenkins, Safety Coordinator of the San Gabriel Water Company from the Department of Public Health memorializing Fontana's December 22, 2009 letter which withdrew its application for Proposition 50 funding from the Water Security funding chapter, Project title: Fontana Water Company – Security Project.

⁴⁹ Proposition 50 – Chapter 3 Grant Requests (Water Security) Funding Priority Ranking (6/1/2011) Fontana Water Company- Security Project Ranked priority number one.
<http://www.cdph.ca.gov/services/funding/Documents/Prop50/Round3ppls/Ch.%203%20Non%20Disadvantaged%20PPL.pdf>

Fontana should continue to pursue the \$1,750,000 in Proposition 50 security funds from which a security camera could be purchased. Therefore, the Commission should not grant Fontana's request to fund this purchase.

2) Capital Project at Plant F13 (\$105,000)

Plant F13 includes two wells, two reservoirs, six booster pumps, concrete masonry well building, and two disinfection equipment buildings. Fontana requests \$100,000 for modification of the plant's booster pumps and an additional \$5,000 for the SCADA system, both in 2011. DRA does not oppose this request.

3) Capital Project at Plant F14 (\$265,000)

Plant F14 is also known as the Sandhill Water Treatment Plant and includes a newer conventional treatment facility and an older facility (installed in the 1960s) that uses diatomaceous earth filtration technology. In this General Rate Case, Fontana requests a total of \$285,000 for the following improvements to the older section at Plant F14.

2011

Diatomaceous Earth Filters Refurbishment: \$40,000

Plant Driveway: \$20,000

Diatomaceous Earth Spring Assist Vault Covers: \$30,000

Pump Room Equipment: \$20,000⁵⁰

2012

Fence/Wall and Drainage System: \$125,000

Diatomaceous Earth Storage Structure: \$50,000

Total Request \$265,000

DRA agrees with the need and costs for all of the requested items except for the fence/wall and drainage system in 2012. The reason for DRA's recommended disallowance is discussed below.

⁵⁰ The pump room equipment is listed under Account 378, Tools and Equipment.

1 Fontana requests \$125,000 and explains that “[t]he planned improvements
2 are required to mitigate existing drainage conditions.”⁵¹

3 Fontana claims that a neighbor at the adjacent property, Mr. Richard
4 Garcia, has made numerous complaints that, when it rains, runoff from Plant F14
5 flows through the chain link fence onto his property.⁵² During DRA’s field visit
6 in August 2011, Fontana added that this neighbor also refuses to allow Fontana to
7 access his property to repair the drainage system. Fontana’s solution to address
8 Mr. Garcia’s concerns is installation of the proposed barricade and drainage
9 system.

10 Fontana proposes to spend \$125,000 to install a fence/wall and drainage
11 system (fence/wall at \$75,000 and drainage system at \$50,000).⁵³ Fontana states
12 that construction of a block wall and drainage system to replace the existing chain
13 link fence will prevent runoff from Plant F14 flowing onto the neighboring
14 property.⁵⁴

15 During the field visit, Fontana explained that an existing drainage system
16 with a drainage pipeline at F14 runs through Mr. Garcia’s property. DRA believes
17 the existing drainage pipeline is damaged and is the root cause of the run-off
18 problem. During the visit, Fontana also discussed with DRA its failed efforts to
19 work with Mr. Garcia to repair the existing drainage system. DRA observed that
20 Fontana has put a temporary plumbing system in place that successfully prevents
21 run-off to the neighboring property.

⁵¹ Direct Testimony of Matt Yucelen, page 13.

⁵² Testimony of Matt Yucelen, Attachment B, Plant F14, page 3 of 8.

⁵³ Testimony of Matt Yucelen, Attachment B, Plant F14, Attachment 7.

⁵⁴ Testimony of Matt Yucelen, Attachment B, Plant F14, Plant F14 Site Improvements, page 3 of 8.

Based on DRA's observations and discussions with Fontana during the field visit, DRA believes that Fontana should continue communications with Mr. Garcia in order to gain access to the neighboring property to repair the existing system and resolve the run-off problem. Therefore, DRA recommends that the Commission deny Fontana's request to construct the fence/wall and drainage system for \$125,000.

4) Capital Project at Plant F15 (\$6,970,000)

Plant F15 is located in the Highland Pressure Zone on the westerly side of Fontana's service area and occupies an approximate 2.8-acre lot on the southwest corner of Summit Avenue and Citrus Avenue in the City of Fontana. Plant F15 currently includes one groundwater well, one 4.1 million gallon ("MG") buried concrete reservoir, six booster pumps, and a disinfection equipment building.

Fontana requests a total of \$6,970,000 to acquire land and to install a reservoir, booster pump, emergency generator and related equipment.

2011

Land Acquisition: \$1,500,000

2012

Fence and Wall: \$350,000

Grading: \$185,000

2013

Construct Reservoir F15 – East (6.0 MG): \$3,490,000

Reservoir F15 – East Piping: \$55,000;

Booster Piping: \$150,000

Booster Building: \$365,000

Booster Pumps: \$170,000

Booster Electrical: \$400,000

SCADA: \$30,000

Emergency Generator: \$275,000

Total Request \$6,970,000

DRA recommends that the Plant F15 project be deferred for the reasons described below. However, if the Commission allows this project to be included

1 in this rate case cycle, then DRA recommends that the allowed project cost reflect
2 the (lower) land cost of keeping the facility at the existing site.

3 This project was deferred in the last General Rate Case, and DRA continues
4 to recommend that it should be deferred. Fontana's justifications for the project
5 are not sufficient at this time to support this project. Fontana's justifications
6 include the need for Plant F15 to accept water from the proposed Plant F58,⁵⁵
7 which is also being requested (and opposed by DRA) in this application.

8 The utility intends to connect Plant F15 and Plant F58 via a \$4 million
9 pipeline (also deferred in last General Rate Case). While the age of the Plant F15
10 facility does warrant an examination for the project, the fact remains that Fontana
11 has provided no evidence that there is inadequate operation of Plant F15 to require
12 the requested items. In fact, the submitted documents indicate that no failures
13 have occurred at Plant F15, which could establish a need for the requested items.
14 Also, since the project has been deferred in the past and Fontana has spent little on
15 this site to date, it appears that there is no urgent need for the project. Finally,
16 Fontana has failed to demonstrate how this project will increase reliability of its
17 water system or whether an increase in reliability is even needed.

18 According to the utility's Water System Master Plan,⁵⁶ one of the purposes
19 for new storage at Plant F15 is fire flow. However, the Master Plan admits that
20 the storage for fire flow at Plant F15 is, at best, for "*back-up*."⁵⁷ The Master Plan,
21 also lists Plant F16, which is part of the same Highland Pressure Zone as Plant
22 F15, and is available to fulfill the needs for fire flow back-up purposes. Plant F16
23 has two new reservoirs installed in 2009-2010 for fire flow purposes, as stated in

⁵⁵ Testimony of Matt Yucelen, Attachment B, Plant F15, Site Improvements, page 2 of 9.

⁵⁶ Direct Testimony of Daniel Dell'Osa, Appendix A, April 2005 Water System Master Plan.

⁵⁷ Direct Testimony of Daniel Dell'Osa, Appendix A, Water Master Plan, page 216.

1 the Permit Amendment.⁵⁸ Therefore, fire flow is not an acceptable justification
2 for a new \$7.0 million reservoir at Plant F15.

3 Fontana also states the new storage at Plant F15 will address shortages:
4 *“Additional storage will be necessary at Plant F15 to utilize the increase in water*
5 *supply from F19.”*⁵⁹ This need for additional storage, however, is based on the
6 addition of the new Plant F58 since Fontana intends to connect Plant F15 and
7 Plant F58 via a \$4 million pipeline (previously deferred and construction has not
8 been started). DRA opposes the pipeline project in question and the proposed
9 Plant 58, as discussed later in this Chapter. Therefore, Fontana’s need for new
10 storage at Plant F15 is not justified and the proposed project should be rejected in
11 its entirety.

12 Land Acquisition for Plant F15 (\$1,500,000)

13 However, if the Commission were to approve Fontana’s request for this
14 project, DRA recommends Fontana be required to provide a cost-benefit analysis
15 to demonstrate that the cost of relocation is less than the cost of remaining at the
16 existing site as discussed further below.

17 Fontana proposes to construct the requested facilities at a new location.
18 This move would require Fontana to acquire a new piece of land, estimated at
19 \$1,500,000. Fontana claims the existing site is too small to accommodate the
20 proposed reservoirs and booster station. Therefore, Fontana intends to spend
21 \$1,500,000 to acquire a nearby site on which to construct the requested
22 improvements.

⁵⁸ Permit Amendment No. 05-13-10PA-039, letter dated August 5, 2010, to Robert Young, General Manager, SGVWC-Fontana Water Company from Sean McCarthy Senior Sanitary Engineer, CDPH, San Bernardino District.

⁵⁹ Testimony of Matt Yucelen, Attachment B, Plant F15, Site Improvements, page 3 of 9.

1 The existing facilities are located on two land parcels owned by Fontana.
2 Fontana acknowledges the current site with its addition of an adjacent parcel
3 owned by Rosemead Properties Inc., an affiliate of San Gabriel Valley Water
4 Company, could be the solution for Plant F15. Specifically, the company states:

5 *“[t]he current F15 site when combined with some adjacent land*
6 *owned by [its] affiliate, Rosemead Properties, Inc., would be large*
7 *enough to accommodate all of those facilities. However, due to*
8 *severe criticism by DRA and the City of Fontana and disallowance*
9 *of a significant portion of a previous San Gabriel purchase from an*
10 *affiliate, San Gabriel does not consider purchase of land from its*
11 *affiliate to be an option.”⁶⁰*

12 This claim is placing disingenuous blame on DRA and the City of Fontana
13 as predetermining their opposition to any land purchase by San Gabriel from its
14 affiliate Rosemead Properties Inc. The Commission has adopted new affiliate
15 rules in D.11-10-034, which provides for ratepayers safeguards to avoid any self
16 dealing between regulated water utilities and its affiliates. As long as the company
17 complies with the Commission’s affiliate rules in purchasing the adjacent land
18 from Rosemead Properties Inc., it should have no concerns in pursuing the land
19 purchase as a viable option.

20 The utility also states that, *“[d]uring a pre-application for this project, the*
21 *City of Fontana requested that San Gabriel remove the old, existing reservoir at*
22 *the southwest corner of Citrus Avenue and Summit Avenue for service once the*
23 *new 6.0 MG reservoir is constructed.”⁶¹* The City’s request does not specify the
24 location of Plant F15 and should not be used as support for the proposed
25 \$1,500,000 site. DRA believes the City’s request addresses removal of an old
26 tank, if and when it is abandoned, and this request is reasonable for the City since

⁶⁰ Fontana’s response to DRA’s data request to KKE-004 Item 14.

⁶¹ Testimony of Matt Yucelen, Attachment B, Plant F15, Site Improvements, page 2 of 9.

1 an abandoned reservoir would likely be seen as a distressed structure, and/or a
2 safety hazard. However, Fontana did not provide verifiable documentation that
3 the City requires the utility to abandon the existing site and locate the new
4 reservoir in another site.

5 In summary, Fontana's justification for a new, more expensive site for
6 Plant F15 improvements (if allowed by the Commission) is not reasonable, and
7 other viable and less expensive options should be studied. Fontana has not
8 adequately demonstrated that the relocation of Plant F15 is necessary or provides
9 the least cost alternative. Therefore, if the Commission approves the Plant F15
10 project, it should disallow any land cost above and beyond the cost of remaining in
11 the existing site, including the cost of adding the adjacent parcel. Fontana should
12 clearly demonstrate that relocating the new reservoir to the proposed new site is
13 more cost-effective than remaining at the existing location. If the Commission
14 approves Fontana's request to build Plant F15 at the new site, the land cost
15 allowable in rates should be capped at the lesser cost of remaining in the original
16 site, plus the cost of the adjacent parcel.

17 The Commission should not approve Plant F15 project because: 1) there is
18 no customer growth to support the upgrade; 2) there is no need for additional
19 storage because the proposed F58 and \$4 million pipeline are also unnecessary and
20 should not be built; and 3) the current system runs satisfactorily with no submitted
21 evidence to the contrary. If the Commission chooses to authorize this project, the
22 land cost should be adjusted as discussed above.

23 **5) Capital Project at Plant F16 (\$1,585,000)**

24 Plant F16 serves the Highland Pressure Zone and contains a 580,000-gallon
25 reservoir and a 750,000-gallon reservoir. Plant F16 also contains six booster
26 pumps. These booster pumps have pumping capacities ranging from 1,423 to
27 2,000 gallon per minute. A total of \$2,675,000 was authorized in D.09-06-027 for

1 this project. For 2011, Fontana is requesting an additional \$1,585,000 to complete
2 the following items for Plant F16:

3 **2011**

4 Fence and Wall: \$130,000

5 Booster Building: \$365,000

6 Emergency Generator: \$275,000

7 Site Work: \$155,000

8 Landscaping: \$130,000

9 SCADA: \$30,000

10 Booster Electrical: \$500,000

11 **Total Request: \$1,585,000**

12 For the reasons discussed below, DRA does not oppose this project as it
13 was authorized in the last General Rate Case. However, DRA opposes Fontana's
14 additional budget request for 2011.

15 In the last General Rate Case decision, this entire project was authorized at
16 \$2,675,000, included "*two at grade steel water storage reservoirs*" and related
17 items.⁶² According to D.09-06-027, the authorized funds for Plant F16 were to
18 "*replace all facilities at Plant F16 including two at grade steel water storage*
19 *reservoirs....a new booster station and related piping, and an emergency*
20 *generator, as well as to construct security fencing and landscaping*" and
21 construction was to be deferred to 2009.⁶³

22 As of end of year 2010, Fontana has spent \$2,846,846, \$172,000 over the
23 amount authorized.⁶⁴ For 2011, Fontana is asking for an additional \$1,585,000 to
24 complete items which were already included in the \$2,675,000 million authorized
25 in D.09-06-027. This would result in a total project cost of \$4,431,846; this
26 amount is 66% higher than originally estimated and authorized. DRA believes

⁶² D.09-06-027, Settlement Agreement, pages 22-23.

⁶³ D.09-06-027, Settlement Agreement, page 21.

1 that the magnitude of this increase for the same project scope is unreasonable
2 without proper justification for the cost overruns. DRA recommends that only
3 \$2,846,846 (the amount spent) be reflected in the 2011 plant estimate in this rate
4 case cycle. DRA also recommends that the cost of this project, once completed,
5 be excluded from rate base and be subject to a reasonableness review in San
6 Gabriel's next GRC.

7 **6) Capital Project at Plant F20 (\$2,650,000)**

8 The Plant F20 reservoir is located in the Juniper Pressure Zone in the
9 southwest portion of Fontana's service area. Plant F20 presently consists of one
10 5.0 MG steel reservoir, piping, and electrical power equipment. Fontana request
11 funding for the following items:

12	<u>2011</u>
13	Land Acquisition: \$300,000
14	<u>2012</u>
15	Reservoir F20 - Painting: \$100,000
16	<u>2013</u>
17	Fence & Wall: \$200,000.
18	Grading: \$200,000.
19	Construct Reservoir F20 – North (2.0 MG): \$1,800,000.
20	Reservoir F20 – North Piping: \$50,000.
21	Total Request \$2,650,000

22 DRA recommends total disallowance of the requested projects at Plant F20
23 for the reasons discussed below.

24 (a) New reservoir (\$2,550,000)

25 Fontana is requesting funding for the above listed items, except for
26 Reservoir F20 painting, to construct a new reservoir at a site near the existing
27 Plant F20.

(continued from previous page)

⁶⁴ Fontana's response to DRA's data request KKE-004, Item 46

1 In support of the project, Fontana states that “[c]onstruction of a new 2.0
2 MG reservoir at Plant F20 will allow [it] to perform the required maintenance
3 and withstand unexpected failures without compromising the storage requirement
4 for fire protection and daily operations.”⁶⁵ The utility also states that “[a]nother
5 benefit provided by the second reservoir is the ability to supply the system from
6 reservoir storage and operate its water production wells during off-peak hours to
7 the extent possible.”⁶⁶

8 Fontana provided general claims of needs and benefits to substantiate this
9 project. In fact, in its so-called “Cost/Benefit Analysis” for this project, Fontana
10 discussed the “consequences of not having [the proposed] facilities”⁶⁷ in general
11 terms and provided no quantitative analysis that considered actual and projected
12 demands and capacity requirements involving this plant site.

13 Plant F20 has been in operation for the last 25 years and is currently in
14 compliance with all California Department of Public Health requirements. There
15 is no documentation provided by Fontana to indicate new conditions that would
16 require a second reservoir at this location. Fontana also has not shown that
17 maintenance for the plant has been inadequate due to the lack of a second
18 reservoir. Lastly, while it may be true that a second reservoir would allow
19 Fontana to run its wells during off-peak hours (and presumably save energy), such
20 energy savings benefit must be weighed against the cost of the project. Fontana
21 has not provided any quantitative cost-benefit analysis to demonstrate that this
22 project will result in savings to Fontana and its ratepayers, and to what extent the
23 revenue requirement impact will be offset.

⁶⁵ Direct Testimony of Matt Yucelen, pages 17-18.

⁶⁶ Ibid.

⁶⁷ Direct Testimony of Matt Yucelen, Attachment B, Plant F20, page 5 of 6.

1 For the above reasons, DRA cannot conclude that this project is needed or
2 is cost effective and recommends that the Commission reject Fontana's request.

3 (b) Reservoir F20 – Painting (\$100,000)

4 Fontana requests \$100,000 in 2012 to sandblast and repaint the exterior of
5 the reservoir at Plant F20.⁶⁸ Fontana states that the “*existing paint is chipped in*
6 *many places and corrosion is visible, rendering the tank unsightly,*” and
7 “*corrosion could threaten the structural integrity of the tank.*”⁶⁹

8 DRA recommends the Commission reject Fontana's request for \$100,000
9 to repaint the reservoir at Plant F20. First, during its field visit in August 2011,
10 DRA observed what appeared to be cosmetic rust stains on the tank. Second, in
11 the last General Rate Case, Fontana requested and received, \$100,000 to paint this
12 tank in 2010, but chose not to do so. Fontana is now asking to perform this
13 painting project in 2012. This two-year deferral of an already approved project
14 does not support Fontana's claim of imminent corrosion threatening the structural
15 integrity of the tank. For these reasons, DRA recommends that the Commission
16 reject Fontana's duplicate request to fund this painting project.

17 **7) Capital Project at Plant F21 (\$3,235,000)**

18 Plant F21 is located in the Juniper Pressure Zone and consists of a
19 fiberglass disinfection building, a sand separator, one active well (F21A), and a
20 concrete block equipment building. Fontana requests \$3,235,000 in this General
21 Rate Case to construct a 750,000-gallon reservoir, a new well, a booster pump and
22 related improvements. Plant items requested for Plant F21 include:

⁶⁸ Direct Testimony of Matt Yucelen, Attachment B, Plant F20, page 1 of 6.

⁶⁹ Direct Testimony of Matt Yucelen, page 17.

2011

Demolition - \$85,000

Fence & Wall - \$235,000

Grading - \$150,000

2012

Well F21B: Drill - \$300,000; Equip - \$65,000

Well F21B: Piping - \$30,000; Electrical- \$100,000

Reservoir F21: Construct West (0.75 MG) - \$700,000

Reservoir F21: West Piping - \$55,000

Booster: Piping - \$200,000; Pumps - \$120,000

Booster: Building - \$445,000; Electrical - \$300,000

Chlorination Equipment: \$30,000

SCADA: \$30,000

2013

Site Work: \$110,000

Street Improvements: \$180,000

Landscaping: \$100,000

Total Request \$3,235,000

DRA recommends that the scope of this project exclude all elements associated with the proposed storage reservoir. If the Commission allows the project scope to remain unchanged, DRA recommends that the project remain an Advice Letter project as authorized in the last General Rate Case.

Fontana was authorized, in its last General Rate Case, to construct this project and upon completion to file an Advice Letter to recover the estimated project cost of \$3,585,000. Since the last rate case, Fontana states that it has spent over \$1,200,000 on this project and much of this amount was for land purchase.⁷⁰ In this Application, Fontana now requests spending \$3,235,000 in the years 2011-2013, bringing the total project cost including the land purchase to \$4,463,258.⁷¹

⁷⁰ Fontana's response to DRA's data request KKE-004.

⁷¹ Fontana's response to DRA's data request KKE-004, Item 46.

1 Although the project was previously authorized in the last General Rate
2 Case, DRA believes that all cost elements associated with adding the storage
3 reservoir at this site are unnecessary and should be removed from the project's
4 scope. Fontana claims that a reservoir is needed because "*the California*
5 *Department Public Health ("CDPH") requires the disinfectant to be in contact*
6 *with the water for a minimum period of 30 minutes before consumption.*"⁷² Such
7 requirement does not exist. According to CDPH engineer Jonathan Weininger,
8 "*California regulations do not have any regulations about minimum disinfection*
9 *contact time for groundwater sources.*"⁷³ This fact was also confirmed by
10 Fontana when it stated, in response to DRA's inquiry, that "the CDPH does not
11 have a requirement that groundwater be in contact with the disinfectant for a
12 minimum period of time."⁷⁴

13 Fontana also claims that the reservoir is "*necessary to meet operational*
14 *requirements and for meeting the high customer water demands in the areas*
15 *immediately surrounding Plant F21.*"⁷⁵ The areas in question are in the Juniper
16 Pressure Zone. Fontana's April 2005 Water System Master Plan states that in
17 2025 shortages will exist in the Baseline, Alder and Highland pressure zones, and
18 "[n]o storage shortages are expected in other pressure zones during the next
19 twenty years."⁷⁶ Therefore, Fontana's claim of "current storage shortages" is not
20 supported by its own Master Plan.

⁷² Direct Testimony of Matt Yucelen, pages 18-19.

⁷³ Email thread to Kerrie Evans, DRA from Jonathan Weininger, California Department of Public Health, August 24, 2011

⁷⁴ Fontana's response to DRA's data request KKE-006, Item 18b.

⁷⁵ Direct Testimony of Matt Yucelen, page 18.

⁷⁶ Direct Testimony of Daniel Dell'Osa, Appendix A (Final Draft, April 2005 Water System Master Plan, Executive Summary, page 11).

1 For all of the above reasons, the Commission should reject all costs
2 associated with the reservoir portion of the project. In other words, only costs
3 required to add the replacement well should be allowed for recovery via Advice
4 Letter rate base offset filing.

5 However, if the Commission allows the company to add the 0.75 MG
6 storage reservoir and file for rate recovery via Advice Letter, DRA recommends
7 that Fontana be required to clearly document the aforementioned disinfectant
8 contact time requirement and storage shortage, and provide a detailed justification
9 of all costs associated with this project. Specifically, Fontana should be required
10 to justify any land cost above the estimated \$700,000, which was part of the total
11 \$3,585,000 project cost authorized in D.09-06-027. DRA notes that Fontana states
12 that it had spent \$1,099,436 for two pieces of property (a parcel in 2009 for
13 \$660,811 and a second parcel in 2010 for \$438,625).⁷⁷ Given the recent trends,
14 DRA believes that the real estate pricing at the time of purchase (2008-2010)
15 should be lower than originally budgeted (2008), and certainly not 60% more.
16 Therefore, Fontana should be required to clearly justify the need for two pieces of
17 property and the resultant cost overrun in its Advice Letter filing.

18 **8) Capital Project at Plant F23 (\$4,935,000)**

19 Plant F23 is located in the Juniper Pressure Zone which is in the southern
20 portion of San Gabriel's service area. Existing facilities at Plant F23 include Well
21 F23A which has a production capacity of 2,750 gallons per minute. In this
22 General Rate Case, Fontana requests \$4,935,000 in 2011-2013 to construct an ion-
23 exchange perchlorate contamination treatment plant, two 0.5 MG reservoirs, and a
24 booster pump station. Fontana estimates that \$1,500,000 will be contributed by
25 the Department of Defense.

⁷⁷ Fontana's response to DRA's data request KKE-005, Item 2b.

2011

Perchlorate Treatment: \$2,500,000⁷⁸
Construct Reservoir F23 – North (0.5 MG): \$465,000
Reservoir F23 – North Piping: \$40,000
Construct Reservoir F23 – South (0.5 MG): \$465,000
Reservoir F23 – South Piping: \$15,000

2012

Booster Building: \$445,000
Booster Piping: \$200,000
Booster Pumps: \$120,000
Booster Electrical: \$300,000
Well F23A Electrical: \$100,000
SCADA: \$15,000
Chlorination Equipment: \$20,000

2013

Site Work: \$100,000
Street Improvements: \$100,000
Landscaping: \$50,000
Total Request - \$4,935,000
(including contributions)

For the reasons discussed below, DRA recommends that this project remain an Advice Letter project as originally proposed by the utility and subsequently approved by the Commission.

In its last General Rate Case, Fontana was authorized to construct this project and upon completion to request rate recovery via an Advice Letter filing. The total estimated cost was \$3,255,000 (\$2,600,000 in company funds and \$655,000 in contributions from the Department of Defense). In this Application, Fontana is requesting a slightly different project, consisting of two smaller reservoirs totaling 1.0 MG instead of the previously requested one reservoir with a 2.0 MG capacity. Fontana's estimated expenditures for 2011-2013 total \$4,935,000 in 2011-2013 (\$3,435,000 in company funds and \$1,500,000 in contributions). In terms of total project cost, Fontana estimates that the project

⁷⁸ Company Funds= \$1,000,000; Contributions, Department of Defense = \$1,500,000.

1 will cost \$5,211,033, including the \$646,033 spent on this project from 2008-
2 2010.⁷⁹ Thus, the estimated cost of this project has increased by a total of
3 \$1,956,033 (\$5,211,033 less \$3,255,000), or 60% over the authorized amount.

4 Fontana states the “amount requested in the GRC is \$835,000 higher than
5 the previously adopted budget due to Fontana’s need to comply with Conditions of
6 Approval of the CUP [Conditional Use Permit].”⁸⁰ The increase of \$835,000 is in
7 requested company funds, but as shown above the total project cost estimate
8 actually increased by \$1,956,033. Also shown above, there is a corresponding
9 increase of \$845,000 in expected contributions (from \$655,000 to \$1,500,000).

10 This project was originally proposed as an Advice Letter project by
11 Fontana and was adopted as such in the last General Rate Case. The parties, as
12 stated in the Settlement Agreement from that proceeding, “*agreed the planned*
13 *work should be done on the schedule proposed and that the project cost, net of*
14 *contributions, should be included in rates by Advice Letter once the project has*
15 *been completed*” and estimated that the project would be in place in 2009.⁸¹

16 Fontana is now projecting that the project will be completed four years
17 later, in 2013. Such a delay causes DRA to question Fontana’s ability or desire to
18 complete this project as scheduled. Therefore, DRA recommends that this project
19 should remain as an Advice Letter project as originally requested and
20 subsequently authorized. DRA also recommends that Fontana be required to
21 provide a detailed justification of all costs and accounting of all funding (i.e.,
22 contributions) associated with this project. DRA recommends that the company-
23 funded portion of the project cost remain capped at \$2,600,000. As noted,

⁷⁹ Fontana’s response to DRA’s data request KKE-004, Item 46.

⁸⁰ Direct Testimony of Matt Yucelen, page 21.

⁸¹ D.09-06-027, Settlement Agreement, page 25.

Fontana is expected to receive an additional \$845,000 in Contribution in Aid of
Constructions from the Department of Defense.

9) Capital Project at Plant F49 (\$4,000,000)

Plant F49 presently consists of one groundwater well. The water produced
at Plant F49 is pumped to Plant F10 where it is treated to remove volatile organic
chemicals using liquid phase carbon adsorption technology. Fontana requests to
construct an ion-exchange treatment facility to remove perchlorate from the
groundwater produced by Well F49A at this site. Fontana's budget for this
project, to be constructed in 2014, is \$600,000 in company funds plus \$3,400,000
in Contributions in Aid of Construction, for a total project cost of \$4,000,000.

2014

Ion Exchange Treatment System: \$4,000,000

**Total Request - \$4,000,000
(including contributions)**

DRA recommends this project be authorized as an Advice Letter project for
the reasons discussed below.

In response to DRA's inquiry regarding the source of the estimated
\$3,400,000 in Contributions in Aid of Construction, Fontana states the following:

*"[Fontana] has not yet procured funds for this project. However,
the company continues to pursue funding from the parties
responsible for the perchlorate pollution as well as grants from
public agencies. If the company is successful in obtaining funds for
the project, the funds will be treated as Contributions in Aid of
Construction."*⁸²

DRA does not oppose this project. However, DRA recommends that it be
authorized as an Advice Letter project because the assumed funding for the project

⁸² Fontana's response to DRA's data request KKE-005, 3b.

1 is uncertain, as shown above. DRA also recommends that the cost to ratepayers
2 (i.e., company-funded portion of the total project cost) be capped at Fontana's own
3 estimate of \$600,000. In other words, the authorization to proceed with this
4 project is contingent upon Fontana's success in procuring the estimated
5 \$3,400,000 in Contributions in Aid of Construction. If Fontana cannot obtain the
6 funds as projected, it may resubmit the request for this project in its next General
7 Rate Case.

8 **10) Capital Project at Plant F53 (\$2,300,000)**

9 Fontana states that it plans to acquire land for the proposed Plant F53 site at
10 the southwest corner of Linden Avenue and Vineyard Avenue in the City of
11 Rialto. At this new plant site, Fontana plans to construct a new reservoir and a
12 booster station. This plant is part of Fontana's plan "*to eliminate a circuitous flow*
13 *of water and substantially reduce the power required to supply water to Plant*
14 *F19.*"⁸³ Fontana's plan, to reroute water delivery from the Sandhill Water
15 Treatment Plant to Plant F19, includes this new plant site F53, as well as a new
16 plant site F58 and new pipelines from Plant F53 to Plant F58 and from Plant F58
17 to Plant F19. The cost associated with the proposed Plant F53 is \$2,300,000 as
18 described below.

⁸³ Direct Testimony of Matt Yucelen, page 23.

2011
Land Acquisitions: \$300,000

2012
Fence & Wall: \$145,000
Grading: \$80,000
Construct Reservoir F53 (1.0 MG): \$900,000
Reservoir Piping: \$50,000

2013
Booster Piping: \$100,000
Booster Pumps: \$60,000
Booster Building: \$225,000
Booster Electrical: \$200,000
SCADA: \$20,000
Site Work: \$70,000

2014
Street Improvements: \$100,000
Landscaping: \$50,000
Total Request - \$2,300,000

DRA recommends the Commission reject Fontana's request for this new Plant F53 for the reasons discussed below.

Fontana has requested authority to implement this water rerouting project before. DRA reiterates its concerns raised in the last General Rate Case that Fontana did not provide any cost-benefit analysis showing the benefits of reduced energy consumption outweighing the costs of installation.⁸⁴ The Settlement Agreement in that proceeding states that "*the Parties agreed that this project should not be authorized*" in the 2008 General Rate Case.

In this instant proceeding, Fontana is again requesting approval of a rerouting project; the total cost for the new facilities is \$10,935,000. This amount includes the costs of the proposed new facilities, Plant F53 (\$2,300,000), Plant F58 (\$2,535,000), pipeline from Plant F53 to Plant F58 (\$2,100,000), and a

⁸⁴ DRA's Report on the Results of Operations in Fontana's TY 2009-2010 General Rate Case, issued on November 3, 2008.

1 pipeline from Plant F58 to Plant F19 (\$4,000,000). Again, in its most recent
2 request, Fontana provides no cost-benefit analysis and simply claims that it “has
3 determined that investment in this project will be offset by energy savings by
4 reducing costly energy consumption at Plants F13, F15 and F16 for the purpose of
5 moving water from the east end to the west end of the system.”⁸⁵ For example,
6 the revenue requirement of this project for the first year will be over \$400,000.
7 There is no evidence provided by Fontana that the energy savings from the other
8 plants will equal or even exceed this amount. Therefore, DRA recommends that
9 the Commission reject Fontana’s request for all plant investments associated with
10 this rerouting plan.

11 **11) Capital Project at Plant F54 (\$720,000)**

12 Fontana proposes to drill a new well (Well F54A) at Plant F54 to replace
13 Well F41A which is damaged and not serviceable. The project also includes
14 electrical equipment, building, fence and site improvements, as shown below.

15 **2011**

16 Environmental Study: \$20,000.

17 **2012**

18 Fence and Site Work: \$20,000.

19 Drill Well F54A: 300,000.

20 Equip Well F54A: \$50,000.

21 Piping for Well F54A: \$50,000.

22 Well Building: \$100,000.

23 Well F54A Electrical: \$150,000.

24 SCADA: \$30,000.

25 **Total Request - \$720,000**

26 DRA agrees with the need for this project and recommends this project be
27 approved as requested.

⁸⁵ Direct Testimony of Matt Yucelen, Attachment C, Plant F53, page 7 of 8.

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1 Fontana filed a “Notice of Intent to Apply for Proposition 84 Funding”
2 letter with the Division of Water and Audits on August 31, 2011. The letter in part
3 states:

4 *“In accordance with California Department of Public Health*
5 *Funding Application Guidelines, [Fontana] provides notice that it*
6 *intends to apply for funding under Proposition 84 Funding Program*
7 *Section 75025 – Prevention and Reduction of Groundwater*
8 *Contamination, The Safe Drinking Water, Water Quality and Supply,*
9 *Flood Control, River and Coastal Protection Bond Act of 2006*
10 *(Prop 84), for the following two projects: Plant No. 8 Perchlorate*
11 *Treatment System...Fontana Water Company Well 56A.”* [Emphasis
12 added.]

13 Because Fontana may receive state funding for part of this project
14 and that funding affects the project’s viability and schedule, it is not
15 reasonable to include the cost of the project in rates at this time. Therefore,
16 this project should only be authorized as an Advice Letter project and be
17 contingent upon state funding. Upon project completion, Fontana may
18 submit a request for rate recovery, via Advice Letter, for the project costs
19 less amount received from the Proposition 84 funds.

20 **13) Capital Project at Plant F58 (\$2,535,000)**

21 Plant F58 is a new facility that is part of Fontana’s larger plan to reroute its
22 system to eliminate a “circuitous”⁸⁷ flow of water to Plant F19. (See discussion in
23 Section C.10 regarding Plant F53). The requested investments at this new facility
24 include the following:

(continued from previous page)

⁸⁶ Direct Testimony of Matt Yucelen, page 24.

⁸⁷ Direct Testimony of Matt Yucelen, page 23.

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	<u>2011</u>
	Land Acquisition: \$400,000
	<u>2013</u>
	Fence & Wall: \$125,000
	Grading: \$85,000
	Construct Reservoir F58 – North (1.0 MG): \$900,000
	Reservoir F58 – North Piping: = \$50,000
	Booster: Piping - \$100,000; Pumps - \$60,000
	Booster: Building - \$225,000; Electrical - \$250,000
	SCADA: \$20,000
	<u>2014</u>
	Site Work: \$100,000
	Street Improvements: \$150,000
	Landscaping: \$70,000
	Total Request - \$2,535,000

For the same reasons as those presented in Section C.10, DRA recommends that this project be rejected in its entirety. Fontana has not provided any cost-benefit analysis to demonstrate that this project will results in cost savings.

14) Capital Project at Plant F59 (\$2,500,000)

Fontana proposes to acquire land and build a new treatment plant F59 in San Bernardino County.⁸⁸ The treatment plant would treat water from the Grapeland Tunnel. The capital items requested in this General Rate Case are as follows:

	<u>2011</u>
	Land Acquisition: \$700,000
	<u>2014</u>
	Fence & Wall: \$200,000
	Grading: \$100,000
	Treatment: \$1,500,000
	Total Request - \$2,500,000

DRA recommends that this project be rejected for the reasons presented below.

1 Fontana states that the low cost water from the Grapeland Tunnel currently
2 flows into the Afterbay Structure, is treated at the Sandhill Surface Water
3 Treatment Plant and is shared with the West Valley Water District, the City of
4 Rialto, and the City of San Bernardino.⁸⁹ The company asserts that with the
5 addition of the proposed treatment plant at F59, it will be able to divert and keep
6 100% of this low cost water. The proposed treatment plant will produce 3,000
7 GPM to “*nearly replace the lost capacity of Well F24A and F26A which had*
8 *production capacities of 1,825 GPM each.*”⁹⁰ These wells “*are currently*
9 *unavailable for regular use due to perchlorate contamination.*”⁹¹

10 Based on its review, DRA has numerous concerns about the viability and
11 costs of this project.

12 First, the project will essentially take away capacities from the West Valley
13 Water District, the City of Rialto, and the City of San Bernardino. Fontana has not
14 clearly demonstrated that its proposed plan is supported, or will not be disputed,
15 by the agencies which will effectively lose access to this water. DRA is concerned
16 that potential legal actions from the affected agencies could delay the project or
17 even render it impossible or improbable to implement.

18 Second, DRA notes that the actual project includes more than just the
19 treatment plant. Specifically, Fontana describes the additional required facilities
20 as follows:

(continued from previous page)

⁸⁸ Direct Testimony of Matt Yucelen, Attachment C, Plant 59, page 1 of 5.

⁸⁹ According Fontana, the sharing is “pursuant to the 1961 judgment in the case of “City of Rialto v. Lytle Creek Water & Improvement Co., et al (San Bernardino County Superior Court Case No. 101512.” (See Direct Testimony of Matt Yucelen, Attachment C, Plant F59, page 2 of 5.)

⁹⁰ Direct Testimony of Matt Yucelen, Attachment C, Plant 59, page 3 of 5.

⁹¹ Ibid.

1 *“Necessary improvements to be included in the next rate cycle*
2 *include a reservoir and related piping, Site Work, street*
3 *improvements and landscaping.”⁹²*

4 Without a complete cost assessment of the proposed plan to divert
5 and treat the Grapeland Tunnel water, there is no way to tell whether the
6 resultant water will be “*low cost*” or at least at a lower cost than other
7 alternatives. Fontana needs to provide the Commission a comprehensive
8 cost-benefit analysis that takes into account *all* costs associated with the
9 proposed plan and all alternatives, including a do-nothing option. Without
10 such comprehensive assessment, Fontana should not be allowed to proceed
11 with this speculative project and all expenditures incurred should be
12 excluded from rate base.

13 Third, Fontana claims that this project will allow it to replace water
14 purportedly lost due to perchlorate contamination at Wells F24A and F26A.
15 In this request, Fontana did not identify the party responsible for the
16 contamination and did not explain whether it has pursued or is in the
17 process of pursuing compensation from the responsible third party, if any.
18 If that funding option is available, it should be explored and the resulting
19 findings presented to the Commission as part of Fontana’s request.

20 For the above reasons, DRA recommends that the Commission
21 reject the project as proposed by Fontana.

22 **15) Geographical Information System (\$1,155,000)**

23 Fontana requests \$1,155,000 to implement its Geographical Information
24 System (“GIS”) in four phases spreading over a four-year period, 2011-2014.⁹³

⁹² Ibid.

⁹³ Direct Testimony of Matt Y. Yucelen, P.E. (SG-12), page 27-28.

1 DRA recommends a project total of \$900,000, with \$0 for 2011, \$850,000 per
2 year for 2012-2014 and \$50,000 for 2015.

3 The GIS project involves converting Fontana's manual system of
4 maintaining atlas sheets and other maps into a digital format. Fontana states that
5 the GIS system is expected to improve the company's productivity and enhance its
6 ability to preserve recorded data. Fontana states that "*the system will allow its*
7 *employees the ability to quickly locate and access information without having to*
8 *search through hundreds and thousands of paper maps,*" and "*also allow*
9 *integration into hydraulic network programs for water system analysis.*"⁹⁴

10 In Fontana's last General Rate Case, the Commission authorized the
11 company to implement the GIS project in 2011 for a total cost of \$900,000 (not
12 \$1,100,000 as incorrectly stated in Mr. Yucelen's testimony).⁹⁵ The company,
13 however, has elected to delay the GIS project in Fontana and implemented GIS for
14 its Los Angeles County Division ("Los Angeles") first.⁹⁶ As reported by Fontana
15 on September 6, 2011, the Los Angeles project performed by San Gabriel's
16 contractor DCSE Inc. is near completion.⁹⁷ DRA notes that for the Los Angeles'
17 GIS project cost, San Gabriel's estimate is \$530,000, DRA's estimate is \$449,000
18 and the actual cost is \$324,499,⁹⁸ or almost 40% less than estimated by San
19 Gabriel.

20 When asked to explain how Fontana developed its estimate of \$1,155,000
21 for GIS in this rate case, Fontana states that "[s]ince DCSE is familiar with San

⁹⁴ Direct Testimony of Matt Y. Yucelen, P.E. (SG-12), Attachment C, tab 'GIS.'

⁹⁵ Fontana's September 6, 2011 response to DRA data request PPM-004, Attachment 1.b.1.

⁹⁶ Fontana's September 6, 2011 response to DRA data request PPM-004, Item 1.

⁹⁷ Ibid.

⁹⁸ Fontana's September 6, 2011 response to DRA data request PPM-004, Attachment 4.a.

1 *Gabriel's GIS needs..., San Gabriel asked for DCSE's assistance in confirming*
2 *San Gabriel's budget for Fontana Water Company's GIS."* Fontana also states
3 that it plans to solicit proposals for this project in October 2011.

4 Because the project has been approved by the Commission, DRA does not
5 oppose the implementation of the GIS project in Fontana in this rate case.
6 However, DRA recommends a total project cost estimate of \$900,000, which is
7 equal to the amount adopted in Fontana's last General Rate Case and is \$255,000
8 less than requested in this rate case. Fontana's \$1,155,000 cost estimate raises
9 doubt and uncertainty for DRA for the following reasons:

- 10 ○ San Gabriel's actual cost for the GIS implementation in its Los
11 Angeles County Division was about 40% less than its own budget
12 estimate (even less than DRA's estimate.)
- 13 ○ The estimated \$1,155,000 budget for Fontana's GIS is from an
14 "Expenditure Plan" developed with input from only **one** contractor
15 and has the potential to be similarly reduced through a competitive
16 bidding process.

17 Additionally, because Fontana has not implemented the project in 2011⁹⁹ as
18 represented in its capital budget, DRA's annual budget estimates correspondingly
19 reflect a later implementation period (2012-2015 instead of 2011-2014). DRA's
20 resulting GIS estimates are: \$0 for 2011; \$290,000 for 2012; \$260,000 for 2013;
21 \$300,000 for 2014 (plus \$50,000 in 2015 for a total of \$900,000).

⁹⁹ Per Fontana's September 6, 2011 response to DRA's data request PPM-003, "[t]he implementation of Fontana Water Company's GIS has not been started."

1 **16) Miscellaneous Plant Additions (\$2,165,000)**

2 Fontana’s “Miscellaneous” plant request contains three subcategories:
3 pumping structures, pumping equipment and treatment equipment. The total
4 request under “Miscellaneous” is \$2,165,000 for 2011-2014.¹⁰⁰ DRA
5 recommends a total budget of \$1,735,000.¹⁰¹

6 (a) Pumping Structures- Equipment Storage Structure. Fontana requests
7 \$250,000 in 2014 to construct an Equipment Storage Structure to house a large
8 forklift at its Plant F56 site, which is currently undeveloped. Because DRA
9 recommends a deferral of Fontana’s requested development and construction of
10 new well and booster pump at Plant F56 (See Section C.12 above), DRA
11 recommends that this storage project be considered only when the development
12 (i.e., construction of the well and booster pump) at Plant F56 is authorized and
13 associated funding is confirmed.

14 (b) Pumping Equipment - Well Refurbishment. Fontana proposes to
15 refurbish three wells per year for an estimated cost of \$225,000 per year. DRA
16 requested and reviewed information on past projects and recorded costs.¹⁰² The
17 proposed amount is consistent with the average of recorded well refurbishment
18 expenditures for 2006-2010. Therefore, DRA finds the estimate reasonable and
19 does not oppose Fontana’s request for well refurbishment.

20 (c) Pumping Equipment - Booster Refurbishment. Fontana proposes to
21 refurbish six boosters every year for an estimated cost of \$90,000 per year. DRA

¹⁰⁰ \$560,000 for 2011; \$435,000 for 2012; \$460,000 for 2013; \$710,000 for 2014 (Capital Budget in Attachment A of Yucelen’s Testimony).

¹⁰¹ \$515,000 for 2011; \$390,000 for 2012; \$415,000 for 2013; \$415,000 for 2014.

¹⁰² Fontana’s October 5, 2011 response to DRA’s data request PPM-006, Item 1.

1 recommends an annual budget of \$45,000 or about half of Fontana's request. The
2 reasons for DRA's adjustment are discussed below.

3 In response to DRA's request for information to support the estimated
4 \$90,000 annual budget, Fontana provides the following explanation:

5 *"During the past 5 years, the company refurbished 21 booster pumps at a*
6 *total cost of \$293,002, for an average of \$13,952 each. The company*
7 *multiplied this average cost by the six booster refurbishments per year*
8 *which equals \$83,712. The company rounded this estimate to establish its*
9 *proposed \$90,000 annual budgets for six booster refurbishments per*
10 *year."*¹⁰³

11 Fontana's historical data for booster refurbishment¹⁰⁴ does not support the
12 5-year (2006-2010) total cost of \$293,002 or the average unit cost of \$13,952.
13 Based on the data provided by Fontana, DRA calculates a 5-year total expenditure
14 of \$222,333, or an annual average of \$44,467.

15 DRA also asked Fontana to provide a progress update on booster pump
16 refurbishment activity in 2011 and to include information such as booster number,
17 actual or expected starting and completion dates and cost documentation.
18 Fontana's response included no such information and simply stated it *"has not*
19 *completed any booster refurbishment as yet, in 2011."*¹⁰⁵

20 Because Fontana has not completed or informed DRA of any plans to start
21 a booster refurbishment project as of the close of the 3rd quarter of 2011, DRA
22 questions Fontana's estimated six booster refurbishments per year. Data provided
23 by Fontana also indicates that it has only refurbished, on average, four boosters
24 per year (for a total of 21 boosters in five years). Furthermore, as presented above,

¹⁰³ Fontana's October 5, 2011 response to DRA's data request PPM-006, Item 2.a.

¹⁰⁴ Fontana's October 5, 2011 response to DRA's data request PPM-006, Attachment D.

¹⁰⁵ Fontana's October 5, 2011 response to DRA's data request PPM-006, Item 2.e.

Fontana’s unit cost estimate of \$13,952 per booster is unsupported. Therefore, DRA recommends that the Commission reject Fontana’s estimating methodology and assumptions, and adopt an annual booster refurbishment budget equal to \$45,000, which is an annual average of recorded 2006-2010 expenditures.

(d) Other “Miscellaneous” Plant Additions.

DRA does not oppose Fontana’s capital budget requests for the following plant items:

- Summit Avenue Landscaping – \$40,000 in 2011.
- SCADA Faceplate Upgrade – \$80,000/year for 2011-2014.
- Security – \$65,000/year for 2011, 2013 and 2014; \$40,000 for 2012.
- Water Quality Sample Stations – \$60,000 in 2011.

17) Account 343-Mains (\$29,790,000)

Fontana is requesting a total of \$29,790,000 in its Mains capital budget for 2011 through 2014. DRA recommends a Mains capital budget totaling \$16,520,000. The annual capital budget amounts for Mains, as requested by Fontana and recommended by DRA, are shown in Table 7-C.

Table 7-C
Comparison of Mains Capital Budget
DRA Recommended v. Fontana Requested

	DRA	Fontana
2011	\$4,175,000	\$6,195,000
2012	\$3,210,000	\$9,960,000
2013	\$6,960,000	\$7,210,000
2014	\$2,175,000	\$6,425,000
4-Yr Total	\$16,520,000	\$29,790,000

1 DRA's recommended Mains capital budget is calculated based on
2 Fontana's requested Mains capital budget with the adjustments described below in
3 sub-sections (a) through (e). For each sub-section heading, DRA includes the
4 associated item number as listed in Attachment C of Mr. Yucelen's Direct
5 Testimony.

6 (a) Baseline Avenue E/Mango (Item 6)

7 Fontana appears to have mistakenly included \$700,000 in the 2011 capital
8 budget for this project instead of the \$680,000 listed in its testimony and
9 justification documentation.¹⁰⁶ Therefore, DRA has included \$680,000 in its
10 recommended Mains capital budget for 2011.

11 (b) Plant F56 to Plant F10 (Item 13)

12 The proposed Plant F56 to Plant F10 pipeline would allow Well F56A at
13 the proposed Plant F56 site, once completed, to be immediately put in service.¹⁰⁷
14 Consistent with the recommendations for Plant F56 presented in Section C.12, this
15 related pipeline project, requested as \$100,000 in 2011, is not included in DRA's
16 recommended Mains capital budget.

17 (c) Recycled Water System (Items 14, 29, and 30)

18 These three Mains projects relate to Fontana's Recycled Water System and
19 are listed in this Application's Mains capital budget as contributions totaling
20 \$6,300,000. Per D.09-06-027, this request was provided through a separate
21 application, A.11-06-005. To avoid addressing this issue in two simultaneous
22 applications, DRA does not include the \$1,900,000 in 2011, \$2,000,000 in 2012,

¹⁰⁶ SG-12, Direct Testimony of Matt Y. Yucelen, P.E., Attachment D, Baseline Ave. tab, p. 2.

¹⁰⁷ SG-12, Direct Testimony of Matt Y. Yucelen, P.E., Attachment D, Plant F56 to Plant F10 tab, p. 1.

1 and \$2,400,000 Mains capital budget contributions (totaling \$6,300,000) in its
2 recommended Mains capital budget.

3 (d) Plant F53 to Plant F58 Pipeline and Plant F58 to F19 Pipeline (Items
4 28 and 48)

5 These two proposed pipelines, totaling 26,100 linear feet of 24-inch steel,
6 would connect the proposed Plant F58 to the rest of the distribution system.
7 Consistent with the recommendations for Plant F58 presented in Section C.13,
8 these two related pipeline projects, requested as \$2,100,000 in 2012 and
9 \$4,000,000 in 2013, are not included in DRA's recommended Mains capital
10 budget.

11 (e) Miscellaneous (Item 52)

12 Fontana has included \$250,000 per year for miscellaneous Mains projects
13 in its 2012, 2013, and 2014 proposed capital budget. Well over half of Fontana's
14 proposed Mains projects that are proposed in the current application are related to
15 City and County road construction projects. Considering that a number of these
16 City and County projects will likely be delayed, the associated budget amounts of
17 the delayed projects will then be available for other 'miscellaneous' pipeline
18 projects. DRA does not support including an additional \$250,000 per year amount
19 for any other unidentified pipeline projects. Therefore, DRA does not include the
20 \$250,000 in 2012, 2013, and 2014 (totaling \$750,000) in its recommended Mains
21 capital budget.

22 **18) Account 345-Services (\$6,400,000 for 2011-20014)**

23 Fontana requests an annual budget of \$1,600,000 (company-funded) to
24 replace 800 services per year at an average unit cost of \$2,000.¹⁰⁸ In response to

¹⁰⁸ Direct Testimony of Matt Y. Yucelen, Attachment E, Account 345.

DRA's inquiry regarding the average unit cost per service replacement, Fontana explains that the \$2,000 unit cost estimate is developed by dividing total expenditure in the 2006-2010 period (escalated by 10%) by the total number of units replaced.¹⁰⁹

Table 7-D below presents recorded costs and number of service replacement over the past five years.

Table 7-D
Fontana Water Company Division
Service Replacements – Historical Data

Year	Cost	Units
2006	\$ 1,273,222	789
2007	\$ 2,381,169	1713
2008	\$ 6,982,934	3257
2009	\$ 1,657,384	1161
2010	\$ 1,380,039	701

DRA notes that 2007-2009 numbers are notably higher than that for 2010, the most recent recorded year. Most significant is the number of replacements in 2008, which is more than three times higher than the 2010 number. Similarly, the recorded costs for 2008 are also unusually high. Therefore, DRA determines that Fontana's 2008 data should be excluded from consideration because 2008 is clearly an atypical year. With this adjustment, and performing a similar calculation with the remaining four years, the calculated unit cost is \$1,687. Using Fontana's projected 800 service replacements per year and DRA's lower unit cost estimate, DRA projects a service replacement budget of \$1,350,000 per year, or \$5,400,000 for 2011-2014, compared to Fontana-requested \$1,600,000 per year and \$6,400,000 for 2011-2014. DRA's annual budget estimate of \$1,350,000 is in line with Fontana's recorded expenditure for 2010.

¹⁰⁹ Fontana's August 19, 2011 response to DRA data request PPM-001, Item 1.b

1 **19) Account 346A-Fire Services (\$1,400,000 for 2011-2014)**

2 Fontana requests an annual budget of \$350,000 (entirely funded by
3 contributions) for Account 346-A-Fire Services. DRA does not oppose Fontana's
4 request.

5 **20) Account 346-Meters (\$4,800,000 for 2011-2014)**

6 For Account 346 – Meters, Fontana requests: 1) \$75,000 per year to
7 install/replace compound meters, and 2) \$1,500,000 per year starting in 2012 to
8 convert all of its approximately 45,000 manual read meters to Automated Meter
9 Reading (“AMR”) meters over a 10-year period. For the reasons discussed below,
10 DRA recommends: 1) \$12,500 per year for compound meter replacement, and
11 2) between \$842,000 and \$928,000 per year for AMR conversion over a 15-year
12 period.

13 (a) Compound Meters

14 Currently, Fontana has 29 compound meters¹¹⁰ in place and proposes to
15 replace all 29 compound meters over the next six years at a rate of five compound
16 meters per year and a unit cost of \$15,000. Fontana asserts that its compound
17 meter replacement is done on a case-by-case basis with revenue, meter age,
18 availability of replacement parts, and durability being the most important factors
19 in the schedule of replacement.¹¹¹ In its testimony, Fontana states that its
20 compound meters range “*in age from 21 to 30 years old*”,¹¹² yet Fontana also
21 claims elsewhere in the same testimony that they “*average 30 years in age.*”¹¹³

¹¹⁰ According to Fontana, the compound meters serve commercial and residential complexes and are designed to meter low flows during normal operation and also supply higher flows in the event of a fire or other emergency.

¹¹¹ Fontana's September 12, 2011 response to DRA data request PPM-004, Item 16.

¹¹² Direct Testimony of Matt E. Yucelen (SG-112), p. 38.

¹¹³ Direct Testimony of Matt E. Yucelen (SG-112), Attachment E, Account 346 – Meters, p. 1.

1 These two claims result in a mathematical improbability. DRA requested a listing
2 of existing compound meters and their respective ages for verification, however
3 Fontana did not include the age of the meters in its response.¹¹⁴

4 DRA also requested information on Fontana's compound meter
5 replacement activity and costs for the past three years (2008-2010) and for 2011-
6 to-date. The recorded information does not support Fontana's replacement rate or
7 unit cost projections. Fontana replaced a total of two compound meters from 2008
8 to 2010 and two in 2011, for a total of only four units in 3¾ years; the recorded
9 unit cost is \$12,534.¹¹⁵ Fontana did not indicate any development that would
10 cause it to deviate from its replacement pace in recent years, or more specifically
11 to increase it by four to six times. Therefore, DRA recommends that the
12 compound meter replacement budget be set based on recent years' average unit
13 cost of \$12,500 and average number of replacement of one per year.
14 Correspondingly, DRA's estimate is \$12,500 per year, compared to Fontana's
15 \$75,000 per year, for 2011-2014.

16 (b) Automated Meter Reading

17 The Direct Testimony of Robert DiPrimio (SG-5, pages 11-18) presents
18 Fontana's justification for the conversion to AMRs and discusses Fontana's AMR
19 Feasibility Study¹¹⁶ to support its requested budget. DRA does not oppose the
20 implementation of Automated Meter Reading for the Fontana system, but needs to
21 ensure that the cost estimates are reasonable and accurate, and the deployment
22 period¹¹⁷ selected is reasonable.

¹¹⁴ Fontana's September 12, 2011 response to DRA data request PPM-004, Item 16.

¹¹⁵ Id.

¹¹⁶ Direct Testimony of Robert DiPrimio (SG-5), Attachment E.

¹¹⁷ The number of years it takes to completely replace manual read meters with AMRs.

1 Fontana's AMR Feasibility Study only considers net costs and benefits
2 based on cash flows associated with operating expenses and capital expenditures.
3 DRA requests Fontana to perform incremental revenue requirement and net
4 present value analysis to determine the impacts to ratepayers resulting from AMR
5 implementation and to select the most cost-effective deployment period (2, 5, 10,
6 12 and 15 years). Fifteen years is the longest deployment period considered by
7 Fontana as the company generally replaces its 1-inch and smaller meters at 15-
8 year intervals.¹¹⁸

9 DRA also asked Fontana to correct an error in its capital cost assumption
10 for the 10-year scenario to reflect a constant conversion rate.¹¹⁹ It should be noted
11 that correcting this error alone would reduce Fontana's originally estimated AMR
12 costs of \$1,600,000 per year by about 45%, or to \$858,500 for 2012, \$858,000 for
13 2013 and \$944,400 for 2014.

14 Based on Fontana's own net present value analysis of the estimated revenue
15 requirement impacts for the 2012-2027 period, with the correction of the
16 conversion rate error discussed above, the 15-year deployment period produces the
17 highest total revenue requirement savings to ratepayers.¹²⁰ Fontana's proposed
18 10-year deployment period produces total estimated savings of \$962,000,
19 compared to \$1,294,000 from the 15-year scenario.¹²¹ Therefore, DRA
20 recommends a 15-year deployment period if the Commission approves Fontana's
21 request to convert its manual meters to AMRs.

¹¹⁸ Fontana's Response to DRA's Supplemental Data Request No. 112.

¹¹⁹ Instead of using a conversion rate of 10% a year, Fontana used a much larger conversion rate in the first five years and lower conversion rate in the second five years of the implementation periods.

¹²⁰ Fontana's responses to DRA's data request PPM-004.

¹²¹ Id.

1 It should be noted that the Commission requires water utilities to perform
2 periodic testing of water meters, and utilities typically replace smaller meters,
3 instead of test and repair, at the specified period. The maximum period between
4 retesting is 15 years for 1-inch meters, and 20 years for smaller than 1-inch
5 meters.¹²²

6 Under the 15-year deployment period, the estimated capital costs for this
7 rate case cycle, as calculated by Fontana in response to DRA's request, are
8 \$890,000 for 2012, \$928,000 for 2012 and \$842,000 for 2014. DRA recommends
9 a total AMR budget for 2012-2014 is \$2,660,000, or \$2,140,000 less than
10 Fontana's request of \$4,800,000.

11 **21) Account 348-Fire Hydrants (\$400,000 for 2011-2014)**

12 Fontana requests an annual budget of \$100,000 (company-funded) to
13 replace and install fire hydrants. Fontana also includes an annual budget of
14 \$100,000 in contributions and \$10,000 in advances. DRA does not oppose
15 Fontana's requests.

16 **22) Account 372-Office Equipment (\$295,000 for 2011-2014)**

17 Fontana requests a four-year budget total of \$295,000 for Office
18 Furniture.¹²³ DRA recommends that the budget be reduced by \$50,000 in 2011,
19 related to the Acoustical Panel, and by \$15,000 per year for unspecified furniture
20 because DRA finds additional improvement and furniture for the almost brand
21 new and underused Office Complex unreasonable. The adjusted 2011-2014 budget
22 is \$185,000,¹²⁴ compared to Fontana's \$295,000.

¹²² General Order 103-A, Section 6.A.1.

¹²³ Fontana's total estimate of \$295,000: \$100,000 for 2011 and \$65,000/year for 2012, 2103 and 2014.

¹²⁴ DRA's total estimate of \$185,000: \$35,000 for 2011, \$50,000/year for 2012, 2013 and 2014.

1 **23) Account 373-Transportation Equipment (\$745,000 for 2011-2014)**

2 Fontana requests a total four-year Transportation Equipment budget of
3 \$745,000: \$265,000 for 2011, \$145,000 for 2012, \$185,000 for 2013, and
4 \$150,000 for 2014.¹²⁵ DRA requested and reviewed additional information to
5 evaluate Fontana’s budget estimates.¹²⁶ DRA does not oppose Fontana’s request
6 for Account 373.

7 **24) Account 376-Communication Equipment (\$15,000 for 2011-2014)**

8 Fontana requests an annual Communications Equipment budget of \$5,000
9 to replace mobile radios. DRA does not oppose Fontana’s request.

10 **25) Account 378-Tools and Equipment (\$410,000 for 2011-2014)**

11 Fontana requests \$410,000 for Tools and Equipment: \$175,000 for 2011,
12 \$130,000 for 2012, \$55,000 for 2013, and \$50,000 for 2014.¹²⁷ DRA requested
13 and reviewed additional information to evaluate Fontana’s budget estimates.¹²⁸
14 DRA does not oppose Fontana’s request for Account 378.

15 **26) Walnut Avenue Pipeline (\$1,158,602 adjustment to rate base)**

16 DRA recommends that the Commission maintain its Findings of Fact and
17 Conclusions of Law in D.09-06-027 (Fontana’s last General Rate Case) regarding
18 the reasonableness of Job No. 5111 (Walnut Avenue West of Sierra Avenue –
19 Install 24-Inch Pipeline) and continue to exclude the costs associated with this
20 project from ratebase.

¹²⁵ Direct Testimony of Matt Y. Yucelen (SG-12), Attachment E, Account 373.

¹²⁶ Fontana’s September 12, 2011 response to DRA’s data request PPM-005.

¹²⁷ Direct Testimony of Matt Y. Yucelen (SG-12), Attachment E, Account 378.

¹²⁸ Fontana’s September 12, 2011 response to DRA’s data request PPM-005.

1 (a) Fontana's Request

2 In 2006, Fontana installed approximately 5,379 linear feet of new 24-inch
3 steel pipeline on Walnut Avenue between Citrus Avenue and Sierra Avenue.¹²⁹
4 The last General Rate Case included a reasonableness review of this project, then
5 referred to as Job No. 5111, and the Commission found that Fontana “*provided no*
6 *demonstration of how the Job No. 5111 project will increase reliability or whether*
7 *an increase in reliability is needed.*”¹³⁰ The Commission excluded the costs of
8 this project from ratebase in the last General Rate Case. In its current Application,
9 Fontana is requesting the Walnut Avenue Pipeline Project, totaling \$1,162,768.85,
10 be included in ratebase for the test year in this General Rate Case.¹³¹ DRA has
11 reviewed the testimony associated with this project (SG-12, Direct Testimony of
12 Matt Y. Yucelen, P.E., pages 43 and 44, and Attachment D – Walnut Avenue
13 Pipeline tab, pages 1 and 2 and its Attachments 1-4) and Fontana’s response to
14 AR4-002 Question 1 regarding the Walnut Avenue Pipeline.

15 (b) Background Information

16 Pursuant to D.08-06-024, Ordering Paragraph 2, a reasonableness review of
17 “post-2002 construction projects” was included in the General Rate Case for Test
18 Year 2009 – 2010, A.08-07-009. The reasonableness review of “post-2002
19 construction projects” included the Walnut Avenue Pipeline, previously referred to
20 as Job No. 5111 – Walnut Avenue West of Sierra Avenue. The Commission made
21 it clear during the reasonableness review in A.08-07-009 that Fontana had the
22 burden of proof and, “*must demonstrate each project is used and useful, needed*

¹²⁹ SG-12, Direct Testimony of Matt Y. Yucelen, P.E., Attachment D, Walnut Avenue Pipeline tab, p. 1.

¹³⁰ D.09-06-027, Finding of Fact 122.

¹³¹ SG-12, Direct Testimony of Matt Y. Yucelen, P.E., p.43.

1 and constructed at a reasonable cost.”¹³² The Commission also defined how
2 Fontana may show a project is needed:

3 “In order to demonstrate a project is needed, there must be an
4 affirmative demonstration of the need. Such a demonstration may
5 include, but is not limited to, examples of specific problems that
6 have occurred or will occur, and how the project will provide the
7 remedy. Another way to demonstrate need is to show specific
8 benefits that will not occur without the project, or new
9 governmental requirements that will not be met without the project.
10 Mere claims of need are not sufficient.”¹³³

11 The Commission decision for the “post-2002 construction projects”
12 reasonableness review included the following summary of events regarding
13 Fontana’s showing in an attempt to meet its burden of proof:

14 “In this proceeding, SGV was well aware that the reasonableness of
15 post-2002 projects would be reviewed. However, it made no
16 affirmative showing in the exhibits served with the application
17 regarding most projects. SGV stated at the PHC that its intent was
18 to rebut any reasonableness arguments made by the other parties. At
19 the PHC, a schedule was set for SGV to provide an affirmative
20 showing. SGV was instructed to provide a list of all projects over
21 \$100,000. From that list, parties identified the projects they wished
22 to pursue. SGV was then required to provide an affirmative showing
23 on each of the identified projects. Parties then served their prepared
24 testimony regarding the projects they intended to address and SGV
25 provided rebuttal testimony. Subsequently, hearings were held
26 addressing reasonableness. This process provided SGV with more
27 than ample opportunity to meet its burden of proof.”¹³⁴

28 Fontana’s argument during the reasonableness review in A.08-07-009
29 regarding the need of Job No. 5111 involved: 1) coordination with the City of

¹³² D.09-06-027, p. 29.

¹³³ D.09-06-027, p. 30. (emphasis added)

¹³⁴ D.09-06-027, p. 31. (emphasis added)

1 Fontana and its paved and constructed curbs and gutters on Walnut Avenue from
2 Sierra Avenue to Citrus Avenue, and 2) delivering a reliable water supply to
3 Fontana Plant F16 reservoir and booster station, which is the primary source of
4 water to the company's Plant F15 reservoir and booster station.¹³⁵

5 Findings of Facts 119 through 122 of D.09-06-027 asserted that “SGV
6 *provided no documentation addressing the need for the Job No. 5111 project,*
7 *“coordination with the local government that will be doing street work in the same*
8 *area may reduce costs, but is not sufficient justification for the Job No. 5111*
9 *project,” “general claims that the Job No. 5111 project will enhance reliability*
10 *without a convincing demonstration that it will do so is not sufficient to meet the*
11 *burden of proof,”* and “SGV provided no demonstration of how the Job No. 5111
12 *project will increase reliability or whether an increase in reliability is needed.”*¹³⁶

13 In the instant proceeding, Fontana provides a similar argument as the one it
14 provided in A.08-07-009 including its coordination with the City of Fontana street
15 improvements, its reliability to deliver water from Plant F13 to Plant F15, and now
16 also adds a third general claim of replacing a bottleneck situation and reducing
17 friction losses.¹³⁷

18 (c) DRA's Analysis and Recommendation

19 DRA has reviewed documentation from the previous reasonableness review
20 of the Walnut Avenue Pipeline project in A.08-07-009, and the documentation
21 provided in the current Application. In addition, as part of DRA data request

¹³⁵ “Showing of San Gabriel Valley Water Company on Reasonableness of Post-2002 Construction Projects” November 24, 2008 filing (A.08-07-009).

¹³⁶ D.09-06-027, p. 90.

¹³⁷ Direct Testimony of Matt Y. Yucelen, P.E. (SG-12), Attachment D, Walnut Avenue Pipeline tab, p. 1.

1 AR4-002, DRA asked Fontana to demonstrate that an increase in reliability is
2 needed, and specifically, demonstrate how the Walnut Avenue Pipeline Project
3 increases reliability.¹³⁸ Fontana’s response to AR4-002¹³⁹ did not include any
4 “*examples of specific problems that have occurred or will occur*,” “*specific*
5 *benefits that will not occur without the project*,” and/or any “*new governmental*
6 *requirements that will not be met without the project*” as suggested in the D.09-06-
7 027 reasonableness review of this project.¹⁴⁰ With no new information and/or
8 justification as a demonstration of need beyond what was provided in the last
9 General Rate Case A.08-07-009, DRA recommends the Commission uphold its
10 Conclusion of Law 47 from D.09-06-027 that Fontana has not met its burden of
11 proof, and that the Walnut Avenue Pipeline should be excluded from ratebase.
12 Therefore, DRA recommends that the Commission deny Fontana’s requested
13 adjustment (increase) of \$1.16 million in rate base.

14 **27) Retaining Wall at Plant F7 (\$537,868, adjustment to rate base)**

15 In Fontana’s last General Rate Case, the Commission excluded from rate
16 base \$537,868 associated with the retaining wall at Plant F7 (included in what was
17 referred to as Job No. 4870.)¹⁴¹ The retaining wall was part of a larger project at
18 this site.¹⁴² In the current Application, Fontana reiterates its request to include
19 this cost in rate base.

¹³⁸ DRA Data Request AR4-002, sent by email from Pat Ma to Dan Dell’Osa at 4:37 PM on September 22, 2011.

¹³⁹ Fontana’s response to DRA data request AR4-002 was sent by email from Christine Sluss to Amanda Rasmussen at 4:32 PM on October 4, 2011.

¹⁴⁰ D.09-06-027, p. 30.

¹⁴¹ D.09-06-027, Ordering Paragraph 38.

¹⁴² D.09-06-027 on page 34 describes the project as follows: “SGV drilled and equipped Well F7B, and installed a water treatment plant, Reservoir F7A and a booster station. The project was placed in service in 2005, 2006, and 2007. Fontana estimated the cost (in 2003) at \$1,340,000. The recorded cost is \$3,407,360.”

1 Fontana states that the retaining wall is a necessary site improvement,
2 because it enabled SGV *“to make better, more efficient use of its property and*
3 *comply with County of San Bernardino storm water requirements,”* and *“to avoid*
4 *constructing a costly storm water drainage system.”*¹⁴³ Fontana explains why the
5 retaining wall was needed, but this explanation does not address the Commission’s
6 central concern that Fontana was imprudent in its planning of the project at Plant
7 F7. Specifically, the Commission stated:

8 *“SGV could and should have been aware of the [drainage] issue. It should*
9 *have considered alternative locations and, if reasonable alternative*
10 *locations were not available, alternative ways to address the drainage*
11 *issue.... SGV has had ample opportunity to meet its burden of proof*
12 *regarding the additional costs of the retaining wall built to address the*
13 *drainage issues, and has not done so.”*¹⁴⁴

14 In an apparent attempt to address the Commission’s previous finding that
15 the company should have considered alternative ways to address the drainage
16 issue, Fontana merely states that the retaining wall allowed for drainage by gravity
17 flow, and therefore enabled it to avoid the more costly installation of expensive
18 storm water vaults, a sump pump and drainage system. Fontana provided no
19 analysis, calculation or documentation to support this claim. Fontana also does
20 not provide proof that this presumably more costly alternative or other alternatives
21 were considered when it decided to build the retaining wall.

22 Fontana has not provided additional information that would support a
23 reversal of the Commission determination that the company has not met its burden
24 of proof regarding the additional costs of the retaining wall. Therefore, DRA
25 recommends that the Commission reject Fontana’s request to recover the cost of
26 the retaining wall in its rates.

¹⁴³ Direct Testimony of Matt Y. Yucelen, P.E. (SG-12), page 44.

¹⁴⁴ D.09-06-027, p. 36.

1 **28) In-Conduit Hydroelectric Generation Pilot Project (\$1,385,661 by**
2 **Advice Letter)**

3 (a) San Gabriel's Request

4 An in-conduit hydroelectric generation project uses existing tunnels, canals,
5 pipelines, aqueducts and other manmade structures that carry water and fits them
6 with electric generating equipment that extracts power from water without the
7 need for a large dam or reservoir.¹⁴⁵

8 Fontana proposes to construct an in-conduit hydroelectric generating station
9 as a pilot project with NLine Energy, Inc. to demonstrate the viability of this
10 technology.¹⁴⁶

11 In this Application, Fontana requests: (i) a finding by the Commission that
12 it is reasonable for Fontana to proceed with the in-conduit hydroelectric generation
13 pilot project, and (ii) the Commission's authorization to file an advice letter to
14 recover all reasonable, recorded costs of the pilot project once it has been placed
15 in service.¹⁴⁷

16 The proposed site for the in-conduit hydroelectric generator is on a
17 proposed bypass pipe around an existing energy dissipater on the imported
18 untreated water connection pipeline from Inland Empire Utilities Agency to the
19 plant F14 Sandhill Water Treatment Plant.¹⁴⁸

¹⁴⁵ The National Hydropower Association webpage for Conduit Hydropower, accessed on October 11, 2011; <http://hydro.org/tech-and-policy/technology/conduit/>

¹⁴⁶ Direct Testimony of Robert J. DiPrimio, SG-5, p. 27.

¹⁴⁷ Direct Testimony of Robert J. DiPrimio, SG-5, pp. 32-33.

¹⁴⁸ Direct Testimony of Robert J. DiPrimio, SG-5, p. 31, and confirmed in the Supplemental Testimony of Robert J. DiPrimio, SG-15, Attachment 1, pp. 20-24.

1 The capital costs requested for this project was originally \$1,813,000 as
2 provided in the Application and supporting Direct Testimony of Robert J.
3 DiPrimio.¹⁴⁹ However, the Supplemental Testimony of Robert J. DiPrimio, which
4 was sent following the completion of the August 24, 2011 initial feasibility study
5 performed by NLine Energy, Inc., included a revised request of \$1,385,661, due to
6 the recommendations to have one turbine providing a 162 kW capacity instead of
7 two turbines providing a 484 kW capacity.¹⁵⁰

8 Fontana anticipates that the in-conduit hydroelectric generation project will
9 qualify for a U.S. Department of the Treasury 1603 Grant which is a part of the
10 American Recovery and Reinvestment Act of 2009. In order to qualify for the
11 U.S. Department of the Treasury 1603 Grant, Fontana must either begin
12 substantial physical work or meet a 5% cost safe harbor requirement by the end of
13 2011.¹⁵¹ Due to the timing of this grant opportunity, DRA has worked with Mr.
14 DiPrimio via telephone and email conversations in order to thoroughly review this
15 project as we approach the end of 2011.

16 DRA has reviewed Fontana's testimony associated with this project (SG-5,
17 Direct Testimony of Robert J. DiPrimio, pages 27-33 and SG-15, Supplemental
18 Testimony of Robert J. DiPrimio, including Attachment 1 - initial feasibility study
19 performed by NLine Energy, Inc. on August 24, 2011), has engaged in phone and
20 email correspondence with Robert J. DiPrimio from Fontana, and reviewed the
21 relevant application workpapers including those for purchased power, water
22 supply mix, and the Standard Operating Procedures for the Sandhill Water
23 Treatment Plant.

¹⁴⁹ Direct Testimony of Robert J. DiPrimio, SG-5, p. 32 and the associated Attachment 1.

¹⁵⁰ Supplemental Testimony of Robert J. DiPrimio, SG-15, Attachment 1, p. 24.

¹⁵¹ U.S. Department of the Treasury webpage for the 1603 Program, accessed on October 11, 2011; <http://www.treasury.gov/initiatives/recovery/Pages/1603.aspx>

1 (b) Background Information

2 Groundwater is the principal source of water for Fontana; however, local
3 surface water from Lytle Creek and State Water Project water from Inland Empire
4 Utilities Agency and San Bernardino Valley Municipal Water District are also
5 available and are treated at the Sandhill Water Treatment Plant.¹⁵² The Water
6 Cost Summary for the Test Year 2012-2013, provided with this Application as
7 Workpaper 5-6, shows the Fontana shares of Lytle Creek Surface Water cost as
8 \$0 per acre-foot, while Inland Empire Utilities Agency State Water Project water
9 purchased from Metropolitan Water District is \$664 per acre-foot. Because of the
10 clear savings from avoiding purchased water, Lytle Creek surface water when
11 available, is and should be treated at the Sandhill water treatment plant over State
12 Water Project water purchased from Metropolitan Water District.

13 The availability of Lytle Creek surface water and the balance of the entire
14 water supply mix are, as stated in the Direct Testimony of Robert K. Young,
15 “*entirely dependent on hydrological conditions and economics.*”¹⁵³ Surface water
16 from Lytle Creek is one of the least costly sources for Fontana; however, the
17 supply from this source is limited and not reliable, especially in dry years.¹⁵⁴ In
18 addition, the reliability of State Water Project water, the other source of water at
19 the Sandhill Water Treatment Plant and the source of water for the proposed In-
20 Conduit Hydroelectric-generation pilot project, “can vary widely from year to
21 year.”¹⁵⁵

¹⁵² SG-11, Direct Testimony of Robert K. Young, p. 2.

¹⁵³ SG-11, Direct Testimony of Robert K. Young, p. 4.

¹⁵⁴ SG-11, Direct Testimony of Robert K. Young, p. 5.

¹⁵⁵ SG-11, Direct Testimony of Robert K. Young, p. 7.

1 (c) DRA's Analysis and Recommendation

2 The initial feasibility study by NLine Energy, Inc. on August 24, 2011, and
3 the subsequent analysis provided by Fontana to DRA via email on October 4,
4 2011, included economic benefit components that addressed the avoided purchases
5 power costs and various alternative energy incentives that may be available if this
6 project is implemented and operated 24 hours a day, 365 days a year. Both of
7 these analyses relied on the assumption of a consistent annual amount of 5,000
8 acre-feet of State Water Project water from the Inland Empire Utilities Agency, at
9 a constant flow rate of 6.9 cfs (4.46 MGD) and the associated constant source of
10 electricity generation for use at the Sandhill Water Treatment Plant.^{156,157}

11 Neither of the analyses provided by Fontana considered: 1) the variability
12 of the supply mix, 2) the cost of using purchased water at the Sandhill Water
13 Treatment Plant, 3) the high priority to use low cost Lytle Creek surface water
14 when it is available, or 4) the corresponding unavailability of Sandhill Water
15 Treatment Plant capacity for State Water Project water for use of the in-conduit
16 hydroelectric generator.

17 The Modes of Operation at the Sandhill Water Treatment Plant are
18 presented in Fontana's Standard Operating Procedures in order of priority. As
19 described on page 7 of the Standard Operating Procedures,

20 *"Each mode of operation is prioritized in consideration of cost,*
21 *quality, and quantity of each source. The selected mode of operation*
22 *will depend on availability of raw water supplies and their ability to*
23 *meet daily water demands. As the raw water supplies with higher*
24 *priorities become unavailable or insufficient to meet water demands,*
25 *the next mode of operation shall govern. Table C-3 presents a*
26 *summary of the modes of operation at the Sandhill WTP."*

¹⁵⁶ Supplemental Testimony of Robert J. DiPrimio, SG-15, Attachment 1, p. 20.

¹⁵⁷ Direct Testimony of Robert J. DiPrimio, SG-5, p. 27. "...in order to produce electricity twenty-four hours a day, seven days a week."

Table C-3 from the Standard Operating Procedures is reproduced here as Table 7-E.

Table 7-E
Modes of Operation at the Sandhill Water Treatment Plant,
as presented in the Standard Operating Procedures in Table C-3

Mode	Description
1	Lytle Creek Only
2	Lytle Creek and SWP water from SBVMWD
3	Lytle Creek and SWP water from SBVMWD and Inland Empire Utilities Agency
4	Lytle Creek and SWP water from Inland Empire Utilities Agency
5	SWP water from SBVMWD and Inland Empire Utilities Agency
6	SWP water from Inland Empire Utilities Agency only*

a – “SBVMWD” is the “San Bernardino Valley Metropolitan Water District” and refers to the source of “State Water Project” (“SWP”) water as untreated purchased water and is available to Fontana at its Sandhill Water Treatment Plant. This purchased water source is not being considered for the in-conduit hydroelectric generator project.

b – The actual Table C-3 references “MWD” which is the “Metropolitan Water District”), and is the same water source and pipeline referred to here in Table 7-E as Inland Empire Utilities Agency. This purchased water source is the one proposed for the in-conduit hydroelectric generator project.

Because of the high purchased cost of using State Water Project water from Inland Empire Utilities Agency, this mode of operation is the last option (option 6) available to the operators of the Sandhill Water Treatment Plant, as shown in the table above. This key component of the Standard Operating Procedures is not reflected in the feasibility study for the in-conduit hydroelectric generation project.

This hydroelectric generation project should only be considered if it directly benefits Fontana and its ratepayers in providing quality and reliable service while reducing its purchased power consumption over a range of realistic and reasonable assumptions. While Fontana’s analysis does show the savings in purchased power outweighing the costs of the project, and therefore potentially beneficial to Fontana and its ratepayers, this result is entirely based on an unrealistic and unreasonable assumption of 5,000 acre-feet of a constant flow of purchased water from Inland Empire Utilities Agency and the associated constant use of Sandhill Water Treatment Plant capacity. Therefore, DRA does not accept

1 the conclusions from Fontana's analysis, as presented, and recommends the
2 Commission not authorize Fontana to file an advice letter for the \$1,385,661
3 associated with this project.¹⁵⁸

4 **29) ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION**
5 **OF THE NEW OFFICE BUILDING**

6 In the Direct Testimony of David M. Batt (Exhibit SG-3), Fontana
7 calculates its Allowance for Funds Used during Construction ("AFUDC") for its
8 new office building to be \$375,851 (Exhibit SG-3, pages 23-26). Fontana
9 calculated its AFUDC for its new office building using its latest authorized rate of
10 return, and calculating interest on the total value of the new office building,
11 including disallowed costs from D.09-06-027.

12 The method for calculating the AFUDC is identified in the Federal Energy
13 Regulatory Commission, Uniform System of Accounts (Title 18, PART 101,
14 Electric Plant Instructions, Section (17) Allowance for Funds Used During
15 Construction. Primarily, the Federal Energy Regulatory Commission's AFUDC is
16 to use the utility's short-term interest rate, until these funds are completely used,
17 and then the remaining component is based upon the utility's authorized rate of
18 return. During the time of the new office buildings construction, Fontana had
19 sufficient short-term debt available to fund its new office building. Based upon
20 the Federal Energy Regulatory Commission's method of calculating AFUDC,
21 DRA used Fontana's short-term debt interest rate during the applicable months.

22 DRA also removed the disallowed investment of \$3.1 million discussed in
23 D.09-06-027, section 30.2.4 on page 58, from the calculation of Fontana's

¹⁵⁸ The current estimated capital cost for this project is \$1,385,661 as stated in San Gabriel's Supplemental Testimony of Robert J. DiPrimio (SG-15 and the associated Attachment 1) and by email from R.J. DiPrimio to Amanda Rasmussen on October 6, 2011 at 4:41 PM. The previously estimated total project cost that was included in Application 11-07-005 and the Direct Testimony of Robert J. DiPrimio (SG-5, page 32 and the associated Attachment 1) was \$1,813,000.

1 AFUDC on its new office building. DRA's recommended allowed AFUDC for
2 Fontana is \$70,238, which is \$305,613 lower than Fontana's request.

3 Fontana is asking to earn its authorized rate of return on non-used and
4 useful property during its construction period, and relies on D.08-05-036, which
5 allowed California American to use its authorized rate of return to calculate
6 AFUDC on its San Clemente Dam Memorandum Account.

7 D.11-09-039 states that "In D.08-10-019, the Commission reiterated that
8 'there are no explicit statutory guidelines for our decisions regarding interest rates,
9 and we have broad flexibility in reviewing the facts of a particular situation and
10 broad discretion to make appropriate findings of fact and conclusions of
11 law....these factors provide a rational basis for our adopted interest rate.'"¹⁵⁹ The
12 factors presented in the current Application are the following:

- 13 1. During construction of Fontana's new headquarters, the facilities
14 were not used and useful to Fontana's ratepayers;
- 15 2. The AFUDC calculation developed by the Federal Energy
16 Regulatory Commission uses a utility's short-term interest rate until
17 short term debt capacity is fully used before using a utility's
18 authorized rate of return;
- 19 3. Fontana had an ample short-term debt available to completely fund
20 its unfunded new headquarters building;
- 21 4. Use of a short-term interest rate encourages a utility to construct
22 large projects as quickly as possible to allow it to earn a return on its
23 projects;
- 24 5. Use of Fontana's short-term interest rate would allow Fontana a
25 reasonable amount of interest in constructing its new headquarters
26 and would have covered their out of pocket expenses if Fontana had
27 funded its new headquarters using short-term debt;

¹⁵⁹ D.11-09-039, p. 10.

- 1 6. Non-utility businesses may capitalize interest in accordance with
2 Statement of Financial Accounting Standards Number 34 –
3 Capitalization of Interest Costs. The interest capitalized is either
4 based upon average debt or a specific borrowing, such as short-term
5 debt;
- 6 7. The construction of Fontana’s headquarters took a short timeframe
7 in relation to the average life of Fontana’s ratebase; and
- 8 8. D.11-09-039 limited AFUDC on California American’s Coastal
9 Water Project to 4.0%, and denied California American’s request to
10 increase the interest rate earned on the Coastal Water Project
11 Memorandum Account to its weighted cost of capital.

12 Fontana is not a competitive company. It is not worried about losing
13 customers because its AFUDC is excessive.

14 DRA’s AFUDC differs from Fontana’s for two reasons: (1) Fontana
15 calculated its AFUDC on construction costs that included \$3.1 million of
16 previously disallowed plant, and DRA used Fontana’s short-term debt rate rather
17 than its full rate of return.

18 **D. CONCLUSION**

19 For the reasons stated above, DRA recommends that the Commission adopt
20 DRA’s recommendations regarding Fontana’s plant requests as discussed above.

TABLE 7-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

PLANT IN SERVICE

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Plant in Service - BOY	287,410.5	306,420.5	19,010.0	6.6%
Additions				
Gross Additions	9,021.5	20,650.0	11,628.5	128.9%
Transfers & Adjustments	(391.9)	(391.9)	0.0	0.0%
Retirements	<u>(1,020.7)</u>	<u>(1,020.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	7,608.9	19,237.4	11,628.5	152.8%
Plant in Service - EOY	295,019.4	325,658.0	30,638.6	10.4%
Weighting Factor	50%	100%		
Wtd. Avg. Plant in Service	291,215.0	325,658.0	34,443.1	11.8%

TABLE 7-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

PLANT IN SERVICE

ESCALATION YEAR 2013 - 2014

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Plant in Service - BOY	295,019.4	325,658.0	30,638.6	10.4%
Additions				
Gross Additions	8,435.0	21,197.5	12,762.5	151.3%
Transfers & Adjustments	(391.9)	(391.9)	0.0	0.0%
Retirements	<u>(1,020.7)</u>	<u>(1,020.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	7,022.4	19,784.9	12,762.5	181.7%
Plant in Service - EOY	302,041.8	345,442.9	43,401.1	14.4%
Weighting Factor	50%	100%		
Wtd. Avg. Plant in Service	298,530.6	345,442.9	46,912.3	15.7%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expenses for Fontana. Tables 8-1 and 8-2 at the end of the Chapter provide DRA's and Fontana's estimates for Depreciation Reserve and Expenses for Test Year 2012-2013 and Escalation Year 2013-2014.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for Test Years 2012-2013 and Escalation Years 2013-2014. Differences between DRA and Fontana are due to different estimates for plant additions.

C. DISCUSSION

As part of its review, DRA verified the following for Fontana:

- Beginning of Year 2011 Gross Plant matches End of Year 2010 from Annual Report;
- Beginning of Year Depreciation Reserve 2011 matches End of Year 2010 from Annual Report; and
- Depreciation expense and depreciation reserve calculations in Fontana's workpapers.

DRA compared the values reported in this general rate case application with Fontana's Annual Reports to track beginning of the year depreciation reserves. Fontana used the composite rate of 2.51% for depreciation accrual based on a straight-line remaining life curve using balances for this case and consistent with Standard Practice U-4. The differences between Fontana's and DRA's estimates are due to DRA's lower estimates for plant additions.

1

COMPARISON OF FONTANA DEPRECIATION RATES

PLANT ACCOUNT	ADOPTED LAST GRC TY 2009-2010	PROPOSED THIS GRC TY 2012-2013
315 - Wells	2.95%	3.34%
321 - Pumping Structures	2.58%	2.66%
324 - Pumping Equipment	3.40%	3.59%
331 - Treatment Structures	2.49%	2.22%
332 - Treatment Equipment	3.39%	2.60%
342 - Reservoirs	1.79%	2.22%
343 - Mains	1.92%	1.97%
344 - Fire Mains	1.38%	1.81%
345 - Services	2.57%	2.49%
345A- Fire Services	2.84%	2.94%
346 - Meters	2.46%	1.85%
348 - Fire Hydrants	2.43%	2.49%
371 - Structures & Improvements	2.03%	1.85%
372 - Office Equipment	4.58%	4.45%
373 - Transportation Equipment	8.69%	9.27%
376 - Communication Equipment	5.05%	7.87%
378 - Tools & Equipment	4.68%	5.88%
TOTAL	2.47%	2.51%

2

D. CONCLUSION

3

Based on its review, DRA accepts Fontana's methodology.

TABLE 8-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	70,851.0	71,159.3	308.3	0.4%
Accruals				
Contributions	637.0	778.4	141.4	22.2%
Clearing Accounts	331.1	331.1	0.0	0.0%
Depreciation Expense	6,207.6	6,608.9	401.3	6.5%
Total Accruals	7,175.7	7,718.4	542.7	7.6%
Retirements	(992.9)	(992.9)	0.0	0.0%
Depreciation Reserve - EOY	77,033.8	77,884.8	851.0	1.1%
Amortization Reserve	1.0	1.0	0.0	0.0%
Wtd. Avg. Depr. Reserve	73,943.4	74,523.1	579.7	0.8%

TABLE 8-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2013 - 2014

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	77,033.8	77,884.8	851.0	1.1%
Accruals				
Contributions	651.0	836.2	185.2	28.4%
Clearing Accounts	336.9	336.9	0.0	0.0%
Depreciation Expense	6,357.8	7,013.1	655.3	10.3%
Total Accruals	7,345.7	8,186.2	840.5	11.4%
Retirements	(992.9)	(992.9)	0.0	0.0%
Depreciation Reserve - EOY	83,386.6	85,078.1	1,691.5	2.0%
Amortization Reserve	1.1	1.1	0.0	0.0%
Wtd. Avg. Depr. Reserve	80,211.3	81,482.6	1,271.3	1.6%

CHAPTER 9: RATE BASE

A. INTRODUCTION

This Chapter sets forth DRA's analyses and recommendations on ratebase. Tables 9-1 and 9-2 at the end of the Chapter compare DRA and Fontana estimates. Differences are due primarily to different methodologies and different estimates of plant additions, working cash, and depreciation reserve.

B. SUMMARY OF RECOMMENDATIONS

1) Materials and Supplies

For Materials and Supplies, Fontana estimates \$1,383,278 for Test Year 2012-2013 and \$1,515,657 for Test Year 2013-2014. Fontana's estimates of the Materials and Supplies Inventory start with a five-year (2006-2010) average, normalized to 2010. This average is further increased by the total percentage change in average plant from 2006 to 2011 (28.1% based on 2011 plant request), and then again escalated by non-labor escalation factors.

DRA disagrees with this methodology because it does not accurately capture the relationship between Materials and Supplies and plant levels and grossly overstated Materials and Supplies amounts. For its estimates, DRA calculates the percentage of recorded 2006-2010 Materials and Supplies amount to recorded 2006-2010 average plant amount. DRA then applies that percentage to DRA's plant estimates. Using this methodology, DRA's estimates for Materials and Supplies are \$1,087,018 for Test Year 2012-2013 and \$1,092,176 for Escalation Year 2013-2014.

2) Working Cash Allowance

Fontana's estimate of the Working Cash Allowance is determined using the Detailed Methodology set out in accordance with Standard Practice U-16. This method includes the Lead-Lag Study, and the Operational Cash Requirement.

Fontana's proposed Working Cash Allowance for Test Year 2012-2013 is \$3,284,225. This amount is more than three times the amount adopted in the last General Rate Case which was \$1,000,000. DRA disagrees with the amount proposed and, as a result, used a five-year average as an estimate for Working Cash Allowance to reflect Fontana's recent recorded amounts (see table below). Therefore, DRA recommends its estimate of \$718,690 as shown in Tables 9-1 and 9-2.

WORKING CASH COMPARISON

YEAR RECORDED	\$ (THOUSANDS)	% OF 5 YEAR AVERAGE
2006	\$619.7	86.2%
2007	\$599.3	83.4%
2008	\$578.9	80.5%
2009	\$792.5	110.3%
2010	\$1,003.1	139.6%
5 Year Average	\$718.7	100.0%
Last GRC -- Requested and Commission Adopted	\$1,000.0	139.1%
This GRC -- Fontana's Methodology with DRA's Estimates		
Test Year	\$1,691.6	235.4%
Escalated Year	\$1,809.9	251.8%
Fontana Requested		
Test Year	\$3,284.2	457.0%
Escalated Year	\$3,626.5	504.6%

9

3) Advances and Contributions

Based on its review, DRA concurs with Fontana's estimates for Advances. Differences in Contributions are due to DRA's adjustments to Contributions as discussed in Chapter 7 – Utility Plant in Service.

1 **4) Deferred Taxes**

2 The difference in Deferred Taxes is attributable to the differences in plant
3 estimates and the effect of bonus depreciation to the Federal Tax Depreciation as
4 explained in Chapter 5. These differences result in lower DRA estimates.

5 **5) Net Common Plant Allocation**

6 Fontana uses the Net Common Plant allocation amount agreed upon in the
7 settlement for the San Gabriel Los Angeles County division's General Rate Case,
8 A.10-07-019, which will be determined by the Commission in a forthcoming
9 decision. If the forthcoming decision adopts an amount that is different from the
10 settlement, then the new amount should be used in this General Rate Case.

11 **6) Net to Gross Multiplier**

12 The net-to-gross multiplier represents the change in gross revenue required
13 to produce a unit change in net revenue. Fontana's proposed net-to-gross
14 multiplier for this General Rate Case is 1.80150, while the net-to-gross multiplier
15 requested by the company in the previous General Rate Case was 1.79916. DRA
16 recommends that the net-to-gross multiplier of 1.70457 be applied in developing
17 the revenue requirement change calculation for Test Year 2012-2013. Fontana
18 and DRA used the same methodology to calculate the net-to-gross multiplier,
19 except that DRA included the Domestic Production Activities Deduction, which
20 reduced DRA's net-to-gross multiplier, while Fontana did not.

21 **7) Rate Base Adjustments**

22 The Commission decision in the last Fontana General Rate Case resulted in
23 certain Rate Base Adjustments, however Fontana removes these adjustments in its
24 current General Rate Case. DRA adds these adjustments back in the current case
25 consistent with recommendations elsewhere in this Report. The following table
26 contains these Rate Base Adjustments:

RATE BASE ADJUSTMENTS

SOURCE	2012-2013	2013-2014
From Chapter 7		
Water Entitlements – Slemmer Lawsuit	(\$2,614,080)	(\$2,614,080)
FWC Office Complex	(\$2,963,210)	(\$2,963,210)
Plant F7 Retaining Wall	(\$466,336)	(\$466,336)
Walnut Ave. Pipeline	(\$1,044,481)	(\$1,044,481)
From Chapter 5		
Excess AFUDC on New HQ	(\$92,084)	(\$92,084)
Excess General Division AFUDC on New HQ	(\$100,722)	(\$100,722)
From Chapter 15		
Plant F14 (Sandhill)	(\$13,242,569)	(\$12,769,620)
TOTAL	(\$20,523,481)	(\$20,050,532)

TABLE 9-1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2012 - 2013

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Service *	294,771.8	319,596.0	24,824.3	8.4%
Materials & Supplies	1,087.0	1,383.3	296.3	27.3%
Working Cash - Lead-Lag	718.7	3,284.2	2,565.5	357.0%
Wtd. Avg. Depr. Res.	(73,943.4)	(74,523.1)	(579.7)	0.8%
Advances	34,148.9	34,148.9	0.0	0.0%
Contributions	23,713.9	30,285.8	6,571.9	27.7%
Accumulated Deferred Income Taxes	26,071.7	29,133.2	3,061.5	11.7%
Deferred ITC	(326.5)	(326.5)	0.0	0.0%
Taxes on Advances and Contributions	1,900.8	1,900.8	0.0	0.0%
Operational Cash Requirement	28.0	28.0	0.0	0.0%
Investment - Fontana Union Water	5,189.7	5,189.7	0.0	0.0%
Net Common Plant Allocation	8,612.2	8,612.2	0.0	0.0%
Ratemaking Adjustment	(23,265.0)	(4,399.4)	18,865.6	-81.1%
Average Rate Base	131,491.8	167,830.5	36,338.7	27.6%
Interest Calculation:				
Avg Rate Base	131,491.8	167,830.5	36,338.7	27.6%
x Weighted Cost of Debt	2.72%	2.72%	0.00%	0%
Interest Expense	3,578.7	4,567.7	989.0	27.6%
less Cap. Interest	(48.2)	(106.8)	(58.6)	121.6%
Net Interest Expense	3,530.5	4,460.9	930.4	26.4%

* DRA and Fontana amounts include \$3.5568M of CWIP

TABLE 9-2

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2013 - 2014

Item	DRA	Utility	Utility exceeds DRA Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Service *	302,087.4	339,107.2	37,019.8	12.3%
Material & Supplies	1,092.2	1,515.7	423.5	38.8%
Working Cash - Lead-Lag	718.7	3,626.5	2,907.8	404.6%
Wtd. Avg. Depr. Reserve	(80,211.3)	(81,482.6)	(1,271.3)	1.6%
Advances	33,048.7	33,048.7	0.0	0.0%
Contributions	23,569.9	31,928.5	8,358.6	35.5%
Accumulated Deferred Income Taxes	26,856.7	30,390.3	3,533.6	13.2%
Deferred ITC	(307.3)	(307.3)	0.0	0.0%
Taxes on Advances and Contributions	1,836.3	1,836.3	0.0	0.0%
Operational Cash Requirement	28.0	28.0	0.0	0.0%
Investment - Fontana Union Water	5,189.7	5,189.7	0.0	0.0%
Net Common Plant Allocation	8,980.4	8,980.4	0.0	0.0%
Ratemaking Adjustment	(22,792.1)	(2,573.3)	20,218.8	-88.7%
Average Rate Base	133,761.3	181,167.8	47,406.4	35.4%
Interest Calculation:				
Avg Rate Base	133,761.3	181,167.8	47,406.4	35.4%
x Weighted Cost of Debt	2.72%	2.72%	0.00%	0.0%
Interest Expense	3,640.4	4,930.7	1,290.2	35.4%
less Cap. Interest	(44.5)	(113.4)	(68.9)	154.8%
Net Interest Expense	3,595.9	4,817.3	1,221.3	34.0%

* DRA and Fontana amounts include \$3.5568M of CWIP

TABLE 9-3

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

NET-TO-GROSS MULTIPLIER

TEST YEAR 2012 - 2013
AND ESCALATION YEAR 2013 - 2014

Item	DRA	Utility
1) Uncollectibles %	0.46480%	0.47320%
2) 1-Uncoll (100%-line 1)	99.53520%	99.52680%
3) Franchise tax rate	0.68568%	0.68568%
4) Local Franchise (line 3*line 2)	0.68250%	0.68244%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.14730%	1.15564%
8) 1-Subtotal (100%-line 7)	98.85270%	98.84436%
9) CCFT (line 8 * 8.84%)	8.73858%	8.73784%
a) DPAD *	-9.00000%	0.00000%
10) FIT ((line 8+9a) * 35%)	31.44845%	34.59553%
11) Total taxes paid (ln 7+ln 9+ln 10)	41.33432%	44.48901%
12) Net after taxes (1-line 11)	58.66568%	55.51099%
Net-to-Gross Multiplier (1/line 12) =	1.70457 (DRA)	
Net-to-Gross Multiplier (1/line 12) =	1.80150 (Utility)	

1 * Fontana - Does not include DPAD in calculation

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations regarding Fontana's customer service and service complaints.

B. DISCUSSION

Fontana has approximately 44,000 customers, of which about 40,500 are residential customers. During the calendar years from 2008 through 2010, no formal complaints were filed against Fontana.¹⁶⁰ Based on the available data provided by the Commission's Consumer Affairs Branch to DRA, it received 34 letter, web or phone contacts from Fontana's customers in 2010 and 15 in the first eight months of 2011. "Disputed bill" appears to be the most frequent reason for the contacts.

Fontana presents its customer service discussions in Chapter 12 – Rates and Service of its Report on Operations (Exhibit SG-1) and the Direct Testimony of Robert K. Young (Exhibit SG-11). Table 10-A below presents a summary of Fontana's service complaints from 2006 through 2010, based on the data provided by Fontana in its Report on Operations (page 12-2).

¹⁶⁰ Fontana's September 21, 2011 Response to DRA's Data Request PPM-008, Item 2.

Table 10-A
San Gabriel-Fontana Water Company Division
Service Complaints, 2006-2010

Ln.	Complaint	2006	2007	2008	2009	2010	2006-2008 Avg.	2009 /Avg	2010 /Avg
1	Taste & Odor	12	10	6	8	5	9	86%	54%
2	Turbidity	1	0	0	0	2	0	0%	600%
3	Pressure (Hi/Low)	119	112	95	94	108	109	87%	99%
4	Sand	3	3	3	1	4	3	33%	133%
5	Air-Milky-Cloudy	0	0	2	1	1	1	150%	150%
6	Bill Inquiries	948	969	816	1,401	1,847	911	154%	203%
7	Leaks - Mains	39	42	44	53	39	42	127%	94%
8	Leaks - Services	607	799	908	1,024	1,095	771	133%	142%
9	Leaks - Hydrants	39	68	95	64	60	67	95%	89%
10	Misc. Other	15	29	15	19	6	20	97%	31%
11	Total	1,783	2,032	1,984	2,665	3,167	1,933	138%	164%

The service complaint records, as presented in Table 10-A, show a significant increase in the total number of service complaints for 2009 and 2010. The 2009 and 2010 totals are 138% and 164% of the 2006-2008 average, respectively (See Line 11, last two columns).

Two categories show significant increases: Billing Inquiries (Line 6) and Leaks – Services or Service Leaks (Line 8). For Billing Inquiries, the number of complaints for 2009 and 2010 are 154% and 203% of the 2006-2008 average, respectively. For Service Leaks, the number of complaints for 2009 and 2010 are 133% and 142% of the 2006-2008 average, respectively. Figure 10-A below shows these significant changes graphically – the number of bill inquiries spiked up after 2008, and the number of service leak inquiries have steadily increased since 2006.

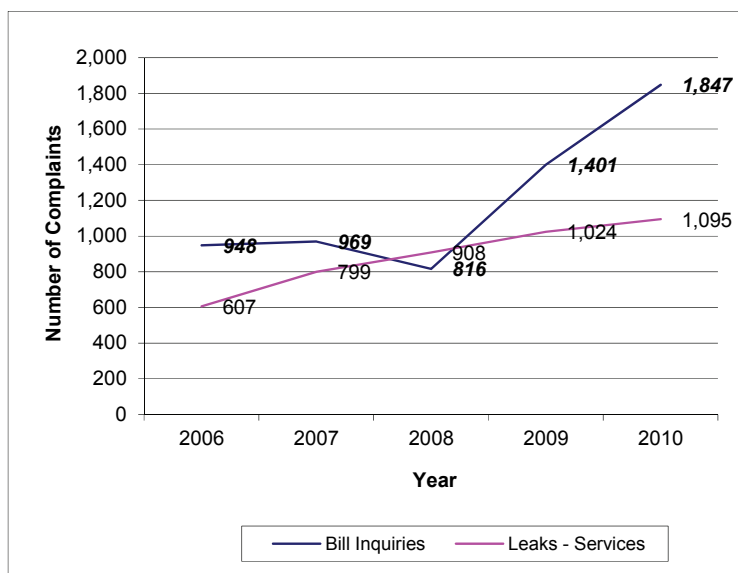


Figure 10-A
San Gabriel-Fontana Water Company Division
Large Increases in Select Complaint Categories, 2006-2010

1) Fontana's Explanation and Plan

DRA asked Fontana (1) what accounted for the significant and steady increases in service complaints related to billing and service leaks, and (2) whether Fontana has set specific goals or taken any action to reduce the number of complaints.¹⁶¹

(a) Billing Inquiries

Fontana's responses to DRA's questions regarding the increase in Billing Inquiries are as follows:¹⁶²

- The "increase in Billing Inquiries is due to an increase in the number of customers questioning the amount of their water bill."

¹⁶¹ DRA's September 12, 2011 Data Request PPM-008, Item 5.

¹⁶² Fontana's October 7, 2011 Response to DRA's Data Request PPM-008, Item 5.

- 1 ○ Fontana declines to explain the reasons for the increases because it
2 would be “*speculative*” to do so.
- 3 ○ Fontana is “*in the process entering Bill Inquiries into a database to*
4 *attempt to analyze if any particular category of customer (such as low*
5 *income or high water usage) are disproportionately behind the increase*”
6 and will provide this analysis in a supplementary response when it is
7 completed.
- 8 ○ The “*number of Bill Inquiries is trending back down*” in 2011 with
9 1,123 processed through September 2011.

10 DRA notes that the estimated, annualized number of Billing Inquiries for
11 2011 is about 1,500.¹⁶³ While it is encouraging to see the “*trending down*” of this
12 service complaint category, the 2011 (annualized) total is still 64% higher than the
13 2006-2008 average.

14 (b) Services Leaks

15 Fontana’s responses to DRA’s inquiry regarding the increase in Service
16 Leaks complaints are as follows:¹⁶⁴

- 17 ○ The increase in service leaks is “*due to an increased number of leaks in*
18 *aging plastic service lines.*”
- 19 ○ Fontana has “*maintained a policy of replacing bad plastic services when*
20 *they leak, and when a subdivision of area is identified with numerous*
21 *service leaks, replacing all service lines in that area.*” Fontana adds that it

¹⁶³ 1,123 * 12/9 = 1,497, rounded to 1,500.

¹⁶⁴ Fontana’s October 7, 2011 Response to DRA’s Data Request PPM-008, Item 5.

1 *“has tried to balance the need to replace all bad plastic services with the*
2 *cost and resulting rate impact in any given year.”*

3 While Fontana’s explanations may sound reasonable, it lacks the necessary
4 and useful information such as: (1) what are “bad plastic services;” (2) has
5 Fontana considered reducing water pressure where feasible to reduce leaks;
6 (3) what kind of benefit and cost analysis did Fontana perform in deciding whether
7 to replace all service lines in a particular area.

8 **2) DRA’s recommendations**

9 (a) Billing Inquiries

10 As of the published date of this Report, DRA has not received the promised
11 analysis regarding Billing Inquiries. DRA recommends that the Commission
12 require Fontana to submit the analysis as described and propose specific and
13 appropriate actions to address problems identified in the analysis in its next
14 general rate case or sooner. In addition, Fontana should be required to include an
15 evaluation of those actions in terms of their effectiveness to reduce the number of
16 Billing Inquiries. Fontana should also be required to file, before the next General
17 Rate Case, an informational-only letter to the DRA’s Water Branch every
18 February to report on the number of Billing Inquiries from the previous calendar
19 year so DRA can monitor the progress of Fontana’s effort, or lack thereof.

20 (b) Services Leaks

21 DRA recommends that Fontana be required in its next General Rate Case
22 application or sooner to report to the Commission the company’s efforts (1) to
23 reduce service leaks and complaints about service leaks, and (2) to address
24 questions raised in Section B.2 above.

1 **C. CONCLUSION**

2 The increases in service complaints related to Billing Inquiries and Service
3 Leaks in recent years are significant. DRA recommends that the Commission
4 require Fontana to investigate and report its efforts to address the issues raised
5 above in Fontana's next general rate case filing, or sooner.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

Monthly water bills are made up of two parts, the service charge and the volumetric consumption or “quantity charge.” The service charge component of the bill remains the same regardless of consumption level, while the “quantity charge” changes based on the amount of water the customer consumes.

Water rate structures play an important role in communicating the value of water to customers. Water rates set price incentives that promote indoor and outdoor water conservation. The most common conservation rate design is normally comprised of an inclining block or tier rate structure where the per unit price increases as consumption goes up.

In a tier rate structure, the 1st block (tier) is typically tied to a customer’s necessity level of indoor consumption. The 2nd block is designed to capture the customer’s reasonable outdoor water consumption. The 3rd block often is a penalty block. Usage above the 2nd block is considered to be wasteful based on reasonable water used given the customer’s characteristics.¹⁶⁵ Increasing block rates, in which rates increase with usage, provide a financial incentive for customers to reduce water consumption.¹⁶⁶ In other words, customers who use low or average volumes of water are charged a reasonable unit rate, but those using significantly higher Volumes pay higher unit prices.

D.10-04-031 authorized a pilot two-tier increasing block water conservation rate design for the Fontana Water Company (“Fontana”) and

¹⁶⁵ Scott Rubin, National Regulatory Research Institute, What Does Water Really Cost? Rate Design principles for an Era of Supply Shortages, Infrastructure Upgrades, and Enhanced Water Conservation, July 2010.

¹⁶⁶ California Public Utilities, Water Action Plan, December 15, 2005.

1 Los Angeles County divisions of the San Gabriel Valley Water Company effective
2 July 1, 2010.¹⁶⁷ This Chapter presents DRA’s analysis and recommendations on
3 Fontana’s rate design.

4 **B. FONTANA’S RATE DESIGN AND PROPOSED CHANGES**

5 **1) Fontana’s Rate Design**

6 D.10-04-031 authorized a two-tier water conservation rate design with the
7 following components:

- 8 a) Block (tier) water conservation rates are limited to residential classes
9 of consumers;
- 10 b) The quantity rate consists of two tiers (without seasonal rates) with a
11 15% differential between tiers;
- 12 c) Quantity rates are calculated with the break point between the tiers at
13 16 Ccf: Tier 1 (0-16 Ccf per month) and Tier 2 (over 16 Ccf per
14 month);
- 15 d) The service charge is designed to recover 28% of the total revenue
16 requirement and the quantity-rate is designed to recover 72% of the
17 total revenue requirement;
- 18 e) A discount equivalent to 50% from the residential service charge is
19 provided for low income customers.

20 D.10-04-031 adopted a two-tier conservation rate design without seasonal
21 rates, with a 15% differential between tiers, as shown in Table 11-A below, for
22 Fontana’s direct-metered residential customers, excluding apartments, trailer parks

¹⁶⁷ D.10-04-031, Decision Authorizing Changes in Rate Design and Ratesetting Mechanisms, and
(continued on next page)

and any other facility in which residential customers receive service through a master meter.¹⁶⁸ Fontana's two-tier rate design was established based on median winter water use, which is an estimate in residential settings of indoor water use that tends to be less discretionary than outdoor water use. This simply means that usage within Tier 2 has larger potential for reduction than Tier 1 in response to a higher price signal.¹⁶⁹

Table 11-A
Fontana Adopted Rate Design

<u>Service Charge</u>	
<i>Residential Meter</i>	
Meter Sizes	To be Determined
<i>Low Income</i>	
Meter Sizes	50% Discount
<u>Quantity Charge</u>	
Number of Tiers	2
Break ccf	0-16/≥17
Percentage Difference	15%
<u>Ratio</u>	
Service Charge	27.97 of Revenue Requirement
Quantity Charge	72.03 of Revenue Requirement

2) Fontana's Proposed Changes

Fontana makes two requests to its current Conservation Rate Design:

- a) Increase the percentage of revenues recovered from service charge from 28% to 30% and decrease the percentage of revenues recovered by the quantity rates from 72% to 70%, respectively.

(continued from previous page)

Denying Motion for Establishment of a Memorandum Account, April 8, 2010.

¹⁶⁸ Ibid

¹⁶⁹ Ibid.

1 b) Increase its low income program's penetration rate from 15% to
2 29.4%.

3 Fontana attempts to justify this proposal by explaining that the California
4 Urban Water Conservation Council's Best Management Practices 1.4 requires that
5 at least 70% of revenues must be recovered through the quantity rate.¹⁷⁰

6 **C. ANALYSIS – CONSERVATION RATE DESIGN**

7 DRA recommends that Fontana apply the same conservation rate design
8 process composed of nine sequential steps, authorized in D.10-04-031, to recover
9 its revenue requirement authorized in this proceeding.

10 *1) Fontana's conservation rate design authorized in D.10-04-031 was a*
11 *pilot two-tier program. The pilot two-tier rate design has been in place less*
12 *than a year. Before making any changes the pilot program should be in*
13 *place for a sufficient period of time to be properly evaluated.*

14 *2) Fontana's process of designing its conservation rate is not consistent*
15 *with its stated proposal and is confusing and flawed.*¹⁷¹

16 As presented by Fontana's calculation, Fontana will not recover 70% of the
17 revenue requirement at its proposed rates from the quantity charges. Instead under
18 Fontana's proposed rates, Fontana will only recover 68%, and the shortfall is
19 \$704,572.¹⁷²

20 Fontana proposes to recover the shortfall of \$704,572 by increasing
21 revenue at general rates for its metered residential customers by the shortfall

¹⁷⁰ Larry Magallanes testimony, SG-7, pp. 3-4.

¹⁷¹ San Gabriel Fontana Water Company Workpaper 57 (RV4)

¹⁷² Ibid

1 amount.¹⁷³ This approach is flawed because Fontana already includes the
2 shortfall it proposes in the revenue at general rates.

3 Similarly, according to Fontana’s proposal, Fontana will not recover 30%
4 of the revenue requirement from the service charges. Instead, under Fontana’s
5 proposed rates, Fontana will only recover 25% of proposed revenue requirement
6 from service charges.

7 Fontana proposes to recover 70% of the revenue requirement from quantity
8 rates, but its conservation rate design is not consistent with its proposal. In an
9 electronic mail dated August 16, 2011, Fontana acknowledged the error and
10 submitted a revised worksheet. However, DRA finds the revised workpapers still
11 incorrect, confusing, and incomplete. Fontana in its electronic mail states that
12 “while the revised workpapers automatically adjusted the Conservation Rate
13 Monthly Service Charge calculation on RV5a, the Conservation Rates would still
14 need to be adjusted upward to complete the re-design”.

15 D.10-04-031 provides a conservation rate design methodology, composed
16 of nine sequential steps as described in Table 11-B below.¹⁷⁴ DRA studied
17 Fontana’s proposed rate design in depth, but cannot verify that Fontana fulfilled
18 each step as specified in the decision. DRA recommends that Fontana provide
19 step-by-step documentation and workpapers for each step of the adopted
20 Conservation Rate Design Procedure as outlined in Table 11-B below.

¹⁷³ Ibid

¹⁷⁴ D. 10-04-031 In the Matter of the Application of San Gabriel Valley Water Company (U337W) for authority to establish a conservation rate design, including a Water Revenue Adjustment Mechanism, modified cost balancing account, and Conservation Memorandum Account in compliance with Decision No. 08-06-022, 4.1. Conservation Rate Design, pg. 25

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2
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Table 11-B
Conservation Rate Design Procedure: Nine Sequential Step Process
Adopted in D.10-04-031

1. First, calculate division-wide rates by traditional rate design procedures (Standard Practice U-07-W, para.11) to obtain uniform rates, using GRC-adopted customers and sales quantities and GRC-adopted revenue amounts (as adjusted by subsequently effective advice letters) for the time period during which the proposed rates will be charged.
2. Convert the resulting low-income discount (50% of the service charge according to the CARW customer's meter size) into the dollar amount to apply as the CARW discount.
3. Calculate the amount of any required BMP 1.4 revenue shift from the monthly Service Charges to the Quantity Rates, based on the Commission-adopted targets. [D.10-04-031 sets the target to be at least 72.03% of the adopted revenue requirement collected from the quantity revenues]
4. Add the dollar amount of the required BMP 1.4 revenue shift determined under Step No. 3 to the adopted Residential Quantity Rate Revenue used in Step No.1
5. Calculate the Single (uniform) Quantity Rate to be used in the Water Revenue Adjustment Mechanism calculation for residential customers by dividing the dollar amount developed in Step No. 4 by the Adopted Annual Residential ccf Sales used in Step No.1.
6. Segregate the Adopted Annual Residential ccf Sales between the two rate tiers using the adopted percentages. [D.10-040-031 authorized that 57% of the adopted ccf sales quantities will be in the 0-16 ccf/mo. 1st tier]
7. Using the adopted tier 1/tier 2 rate differential, develop tier 1 and tier 2 Quantity Rates for residential customers that are designed to produce the exact same revenues as those produced by the uniform quantity rate determined in Step No. 5. [D.10-04-031 sets the tier 1/ tier 2 rate differential at 15%]
8. Subtract the dollar amount of the required BMP 1.4 revenue shift determined under Step No. 3 from the adopted revenue requirement collected from the service charge for Residential customers.
9. Develop monthly service charges by meter sizes for residential customers by dividing the service charge revenue calculated in Step No. 8 by the adopted number of residential services. (This monthly service charge will be calculated by taking the service charge derived from the Adopted Residential Revenue Requirement multiplied by one minus the required BMP 1.4 percentage revenue shift and multiplied this product by Commission-adopted meter ratios to develop service charge rates for each meter size.)

4

1 3) *Fontana's conservation rate design lacks revenue neutrality.*

2 Prices in the second tier are set as a percentage of the first tier. The first
3 tier is a percentage of the Single Quantity Rate ("SQR"), which is the per-unit rate
4 that would be charged if each unit of water were charged at the same rate. A rate
5 design is revenue neutral if the revenue derived through the tiered rate design
6 equals the revenue generated by the equivalent SQR.

7 Fontana has not demonstrated clearly that its conservation rate design is
8 revenue neutral. Since Fontana's rate design as presented in this GRC is
9 confusing and flawed, DRA recommends that Fontana provide answers to each
10 step of Figure 1: Conservation Rate Design Procedure in D.10-04-031 at the
11 Technical Conference.

12 **D. ANALYSIS – LOW INCOME SURCHARGE**

13 See DRA discussion and recommendations in Chapter 12.

14 **E. SUMMARY OF RECOMMENDATIONS**

15 To recover Fontana's revenue requirement authorized in this proceeding,
16 DRA recommends the following:

17 1) Fontana retain its current rate design as authorized in D.10-04-031,
18 composed of nine sequential steps as outlined in Table 11-B, with the
19 following components:

20 a) Block (tier) water conservation rates are limited to residential
21 classes of consumers;

22 b) The quantity rate consists of two tiers (without seasonal rates)
23 with a 15% differential between tiers;

- 1 c) Quantity rates are calculated with the break point between the
2 tiers at 16 Ccf: Tier 1 (0-16 Ccf per month) and Tier 2 (over 16
3 Ccf per month);
- 4 d) The service charge is designed to recover 28% of the total
5 revenue requirement and the quantity-rate is designed to recover
6 72% of the total revenue requirement;
- 7 e) A discount equivalent to 50% from the residential service charge
8 is provided for low income customers.
- 9 2) Fontana's conservation rate design for its residential metered
10 customers should be revenue neutral.
- 11 3) As required by D.10-04-031, Fontana should provide the following
12 information in its next General Rate Case filing:
- 13 a) Monthly per customer or service charge connection changes in
14 consumption (compared to the same month in the previous years)
15 by ratemaking division, separated by meter size and customer
16 class;
- 17 b) Surcredits and surcharges by ratemaking division and customer
18 class implemented in amortizing water revenue adjustment
19 accounts;
- 20 c) Meter-reading errors, by division, that cause an unjustified
21 crossing of tiers or retention within tiers;
- 22 d) Number of low-income program participants disconnected for
23 nonpayment by ratemaking division for each year after the
24 adoption of this rate design;

1 e) Number of residential disconnections for nonpayment by
2 ratemaking division for each year after the adoption of this rate
3 design;

4 f) Incidences, if any, by ratemaking division of apparent unfair
5 impact upon large, extended or multi-family households due to
6 the two-tier rate design; and

7 g) Any other ratemaking division-specific factor that might
8 contribute to consumption changes and an estimation of its
9 impact.

10 4) Since Fontana's rate design as presented in this GRC is confusing
11 and flawed, DRA recommends that Fontana provide answers to each
12 step of Figure 1: Conservation Rate Design Procedure in D.10-04-
13 031 at the Technical Conference. ¹⁷⁵

14 5) The Commission should remove the California Alternative Rates for
15 Water program costs from rate design. See DRA discussion and
16 recommendations in Chapter 12.

¹⁷⁵ D.10-04-031 provided a Conservation Rate Design Procedure composed on nine sequential steps.

1 **CHAPTER 12: CALIFORNIA ALTERNATIVE RATES FOR WATER**

2 **A. INTRODUCTION**

3 Decision 05-05-015 from May 2005 authorized Fontana’s low-income
4 program, California Alternative Rates for Water (“CARW”), which was modeled
5 on the California Alternate Rates for Energy (“CARE”) program. This Decision
6 also authorized the CARW discount to reduce the service charge by 50% and
7 states that applying the discount to the readiness to serve charge, without changing
8 quantity rates, promotes conservation better than applying a [percentage] discount
9 to the total bill. In Decision 10-04-031, the CARW discount was changed from a
10 percentage discount off the service charge to a discount that is a fixed amount in
11 order to ensure that under conservation rate design -- which lowers the monthly
12 service charge -- low-income customers would not receive a lower discount.
13 Fontana was therefore authorized to make the CARW discount a fixed amount
14 equivalent to 50% of what the residential service charge would be under
15 traditional rate design.¹⁷⁶ The discount is calculated and then applied as an offset
16 to the low-income customer’s monthly service charge, rather than as a separate
17 discount on the bill.

18 Decision 05-05-015 also authorized Fontana to implement a memorandum
19 account in order to track on a monthly basis: “(1) the recorded reduction in billed
20 service charge revenue (debit), (2) program costs for incremental activities
21 associated with the program (debit), (3) one-twelfth of the annual Commission
22 adopted revenue reduction due to the reduction in service charges”¹⁷⁷ (credit).¹⁷⁸

¹⁷⁶ According to U-07-W, Decision 86-05-064 states that the service charge should be set to cover 50% of fixed costs and the commodity charge should recover the remainder of the revenue requirement (50% of the fixed operating costs and 100% of the variable costs).

¹⁷⁷ D. 05-05-015, p. 5.

¹⁷⁸ See Footnote 1 on Fontana’s Preliminary Statement tariff sheet 2024-W, available on its website: <http://www.sgvwater.com/wp-content/uploads/pdf/2024-W.pdf> (accessed 10/31/11).

1 **B. SUMMARY OF RECOMMENDATIONS**

2 **1) CARW participation rate**

3 DRA recommends that Fontana report a participation rate of active CARW
4 customers, divided by actual eligible customers, in addition to reporting a
5 participation rate based on adopted residential customers.

6 The CARW program is based on the CARE program and allows for
7 randomly sampling program participants for income verification. Given the high
8 participation rate for Fontana, DRA recommends that each quarter Fontana be
9 required to randomly sample a group of CARW customers to verify their income
10 and to check that the high participation rate is not being inflated by fraudulent
11 claims.

12 **2) Use surcharges and surcredits for CARW program**

13 DRA recommends that the CARW discount be reflected as a fixed surcredit
14 separately on the low-income customer bill instead of being applied directly to the
15 meter service charge.

16 Additionally, instead of collecting CARW funding through an increase in
17 the rate design, a separate surcharge on all non-low-income customer usage should
18 be used to collect CARW funding. This surcharge should be listed separately on
19 the bill.

20 **3) Identify CARW surcharges and surcredits on bill**

21 California Water Service Company was authorized in Decision 06-11-053
22 to identify its Low Income Ratepayer Assistance program surcredits as “Low
23 Income Credit” and surcharges as “Public Purpose Programs” on its monthly

1 bills.¹⁷⁹ DRA recommends that Fontana use the same designations on the
2 customer bills.

3 **4) Use a volumetric surcharge to fund CARW**

4 Fontana's collection of funding for the CARW program is currently built
5 into the rate design. Since Fontana has such a high participation rate in the CARW
6 program compared to other water utilities, there are fewer non-eligible customers
7 among which to spread out the cost of funding the program. DRA recommends
8 that Fontana use a volumetric surcharge applicable to *all* non-CARW water sales,
9 which would be more equitable by having water users pay in direct proportion to
10 their usage, with high water users paying more to fund CARW.

11 **5) Calculating surcredit amount**

12 DRA recommends that San Gabriel set the fixed amount for the CARW
13 discount equal to 50% of what the meter charge would have been under
14 Commission standard rate design for residential customers with 5/8" meters. This
15 discount should apply to all low-income customers regardless of their meter size.

16 **6) Calculating surcharge amount**

17 DRA disagrees with Fontana's approach to estimating the CARW program
18 budget for future years and instead recommends that Fontana estimate the total
19 cost of the CARW program as follows: The monthly discount derived above
20 should be applied uniformly to all low-income customers enrolled in the CARW
21 program regardless of their meter size. Fontana should then estimate the total
22 amount of discounts given out per year using its calculated participation rate (30%
23 as of 2011) and the average number of customers by meter size. The sum of the
24 total amount of the discounts per year for low-income customers with 5/8", 3/4",

¹⁷⁹ Decision 06-11-053, p. 6.

1 and 1” meters should equal the amount of revenue that needs to be raised through
2 a surcharge on usage of non-CARW customers.

3 This total amount of revenue needed to fund CARW should then be divided
4 by the total of *all* water sales (excluding low-income customer sales) in order to
5 calculate the volumetric surcharge. This volumetric surcharge should only be paid
6 by non-low-income customers.

7 **7) Change Memorandum Account to Balancing Account**

8 DRA recommends that Fontana use a balancing account instead of a
9 memorandum account to better balance the actual funding collected with the
10 actual CARW expenditures on discounts. Fontana should be comparing the *actual*
11 amount of surcharge revenue collected from non-CARW customers to fund
12 CARW to the *actual* amount paid out through discounts to eligible low-income
13 customers enrolled in the CARW program in order to true up the balance.
14 Currently, Fontana’s memorandum account tracks *adopted* revenue reductions due
15 to the reduction in service charges and the *actual* reduction in billed service charge
16 revenue.

17 **C. DISCUSSION**

18 **1) CARW participation rate**

19 Fontana reports in Attachment C of the Direct Testimony of Larry
20 Magallanes a participation rate of 29.4% as of March 2011.¹⁸⁰ This participation
21 rate is calculated by the actual number of CARW customers divided by the
22 Adopted Residential Customers (1” or less). Attachment 12-1 in Appendix B of
23 this Report is Fontana’s October 20, 2011 response to DRA’s electronic data
24 request and defines “Adopted Residential Customers (1” or less)” as including

¹⁸⁰ Direct Testimony of Larry Magallanes, SG-7, Attachment C, p. 5.

low-income customers and master meter customers.¹⁸¹ This measure of participation rate may be misleading. For example, if the total number of residential customers decreases, the participation rate will grow despite the fact that the absolute number of low-income customers may have remained the same. An excerpt from Attachment C of Larry Magallanes' Direct Testimony is shown in Table 12-1 below to illustrate that the 29.4% participation rate combines both a growing number of CARW customers with a shrinking number of Adopted Residential Customers.

Table 12-A
Excerpt from Attachment C of Larry Magallanes'
Direct Testimony showing participation rate

Month	CARW Customers	Adopted Residential Cust (1" or less")	Participation Rate
Jan-08	7,585	42,829	17.7%
Jan-09	9,021	44,114	20.4%
Jan-10	9,946	40,954	24.3%
Jan-11	11,977	40,954	29.2%
Mar-11	12,042	40,954	29.4%

Another useful participation measure, which Fontana does not provide, is the percentage of eligible customers that actually participate in the program. Attachment 12-2 (in Appendix B of this Report) from the September 2011 Low

¹⁸¹ Attachment 12-1. Electronic data request response addressed to Ms. Chari Worster dated October 20, 2011. "A.11-07-005 Email Data Request." Response to Question 1. p. 1.

1 Income Oversight Board¹⁸² meeting shows Class A water utilities' participation
2 rates for the year 2010. These participation rates are calculated out of the number
3 of eligible customers, not all residential customers. This attachment shows that
4 San Gabriel (including both its Fontana and Los Angeles divisions) has
5 consistently had a high participation rate since 2006. In 2010, the participation
6 rate was 72.1%, as compared to the next highest participation rate of 40.2% for
7 Golden State Water Company. Growth in San Gabriel's participation rate was
8 much higher in 2009, and slowed down in 2010. Attachment 12-3 (in Appendix B
9 of this Report) is a 2011 DRA brochure on all low-income programs and shows a
10 94% participation rate in CARE in 2010 (among eligible customers) combined
11 across all four major investor owned energy utilities.¹⁸³

12 Given the generally high participation rates in CARE and the fact that
13 CARE and CARW use the same eligibility criteria, it does not seem unreasonable
14 for Fontana to have such a high participation rate. While the participation rate
15 Fontana calculated seems high, it does not seem out of line when compared with
16 the high participation rates shown in Attachments 12-2 and 12-3.

17 Fontana's CARW program does not require participants to provide proof of
18 income when applying. The application form makes it clear that participants must
19 be within certain income levels and must be willing to provide verification of
20 income, or show participation in another utility low-income discount program if
21 requested post enrollment. The application form also makes clear that participants
22 might be asked to pay discounts back later if they were not qualified to receive it.
23 In Attachment 12-1 (Fontana's October 20, 2011 response to DRA's data request),

¹⁸²

<http://liob.org/docs/8.%20Division%20of%20Water%20and%20Audits%20ParticipationUpdate.ppt>

¹⁸³ http://www.dra.ca.gov/NR/rdonlyres/4CF18614-13F0-4C6D-968A-E79274B9F981/0/lowincomebrochure_rc5final_v2.pdf

1 Fontana states that “the company has neither the expertise nor resources to
2 completely verify the information provided by the customer (for example, the
3 customer may present pay stubs for only a portion of the household income or may
4 misrepresent the number of persons actually residing in the household) and so is
5 unable to detect most fraud/ineligibility.”¹⁸⁴ While it may be difficult to detect
6 such fraud, DRA recommends that Fontana be required to take a random sample
7 of customers, ask for proof of income or proof of CARE enrollment quarterly, and
8 report the results with reporting on the CARW program in its GRCs.

9 **2) Use surcharges and surcredits for CARW program**

10 DRA recommends that the CARW discount be set equal to 50% of what the
11 meter charge would have been under Commission standard rate design for
12 residential customers with 5/8” meters. However, the discount should show up as
13 a separate fixed surcredit on the bill instead of being applied directly to the meter
14 service charge.

15 Likewise, instead of collecting CARW funding through rate design, a
16 separate surcharge to non-CARW customers should be used to collect CARW
17 funding. This surcharge to all non-CARW customers to collect funds for the
18 CARW program should also be listed separately on the bill.

19 Attachment 12-1 is Fontana’s October 20, 2011 response to a DRA data
20 request. Fontana states that “there is no surcharge to fund the CARW program.
21 Rather, the estimated cost of the CARW program has been built into the rate
22 design since August 2005 when the CARW program was initiated.”¹⁸⁵ This
23 method of giving discounts and collecting program funding obscures the benefits

¹⁸⁴ Attachment 12-A. Electronic data request response addressed to Ms. Chari Worster dated October 20, 2011. “A.11-07-005 Email Data Request.” Response to Question 3. p. 2.

¹⁸⁵ Attachment 12-A. Electronic data request response addressed to Ms. Chari Worster dated October 20, 2011. “A.11-07-005 Email Data Request.” Response to Question 1. p. 1.

1 and costs of the CARW program, and confuses the rate design. A change from
2 incorporating the collection of CARW funding into the rate design, to having
3 separate surcharges and surcredits for the CARW program, will allow program
4 funding and expenditures to be more easily tracked. Showing the surcharges and
5 surcredits separately on customer bills, instead of incorporating them into the rate
6 design or the service charge, will help ensure that during the ratemaking process,
7 the meter service charges are clear. This will help determine compliance with
8 conservation rate design.

9 **3) Use a volumetric surcharge to fund CARW**

10 Fontana's collection of funding for the CARW program is currently built
11 into the rate design.¹⁸⁶ As described above, DRA recommends CARW program
12 funding be collected through a separate surcharge on non-CARW water usage.
13 Since Fontana has such a high participation rate in the CARW program compared
14 to other water utilities, there are fewer non-eligible customers among which to
15 spread out the cost of funding the program. DRA recommends that Fontana use a
16 volumetric surcharge applicable to *all* non-CARW water sales, which would be
17 more equitable by having customers pay in direct proportion to their usage with
18 high water users paying more to fund CARW.

19 Decision 06-11-053 authorized California Water Service Company to
20 implement a volumetric surcharge to fund its low-income program. This decision
21 notes that a volumetric surcharge is more equitable since high water users pay
22 more and is not in conflict with the Water Action Plan. By using a volumetric
23 surcharge, customers will receive an additional conservation message and costs

¹⁸⁶ Table RV6a in the Application General Workpapers Revised Excel spreadsheet shows inflated meter charge revenues that account for the projected offset of total CARW discounts. The Monthly Service Charges are designed to collect enough revenue to pay for the cost of the CARW discounts.

1 can be spread out between residential and non-residential customers, which will
2 reduce the overall surcharge any single customer pays.

3 **4) Calculating surcredit amount**

4 DRA recommends that Fontana set the fixed amount for the CARW
5 discount equal to 50% of what the meter charge would have been under
6 Commission standard rate design for residential customers with 5/8" meters. This
7 discount should apply to all low-income customers regardless of their meter size.

8 Hence, the discount for 2012-2013 calculated based on the 5/8" meter
9 service charge should be the same discount given to all low-income customers
10 with 5/8", 3/4", and 1" meters enrolled in CARW program in that year.

11 In Decision 10-04-031, Fontana was authorized to make the fixed CARW
12 discount equivalent to 50% of the residential service charge under traditional rate
13 design.¹⁸⁷ This is a fair methodology for calculating the surcredit since it ensures
14 that low-income customers with conservation rate design, which has lower meter
15 charges, do not receive a lower discount. However, DRA believes that all low
16 income customers should receive the same bill discount. The Commission should
17 therefore set the CARW surcredit as the amount equivalent to 50% off a
18 hypothetical 5/8" residential meter charge calculated using traditional rate design.

19 **5) Calculating surcharge amount**

20 DRA disagrees with Fontana's approach to estimating the CARW program
21 budget for future years and instead recommends that Fontana estimate the total
22 cost of the CARW program as follows: The monthly discount derived above
23 should be applied uniformly to all low-income customers enrolled in the CARW
24 program regardless of their meter size. Fontana should then estimate the total

¹⁸⁷ D.10-04-031. p. 38.

1 monthly discount given to all low-income customers with 5/8", 3/4", and 1" meters.
2 Fontana can then find the total amount of discounts given out per year using the
3 calculated participation rate (currently about 30% in 2011) and the average
4 number of customers by meter size. The sum of the total amount of the discounts
5 per year for low-income customers with 5/8", 3/4", and 1" meters should equal the
6 amount of revenue that needs to be raised through a surcharge on usage of non-
7 CARW customers.

8 This total amount of revenue needed to fund CARW should then be divided
9 by the total of *all* water sales (excluding low-income customer sales) in order to
10 calculate the volumetric surcharge. This volumetric surcharge should only be paid
11 by non-low-income customers.

12 Fontana currently gives a different discount to low-income customers based
13 on each meter size. Table RV6a in the Application General Workpapers Revised
14 Excel spreadsheet shows that Fontana estimated the total amount of CARW
15 discounts to service charge revenues given a 30% participation rate at \$2,512,046
16 for 2012-2013; \$2,700,668 for 2013-2014; and \$2,851,188 for 2014-2015. This
17 30% participation rate assumes that for each of the three types of low-income
18 meter sizes (5/8", 3/4", and 1") there is an even 30% participation rate.¹⁸⁸ In the
19 Application General Workpapers Revised Excel Spreadsheet (Table RV5), the
20 discount is set to the equivalent of 50% of each of the following 2012-2013
21 service charges calculated using Commission standard rate design: \$21.49 for
22 5/8", \$32.24 for 3/4", and \$53.73 for 1". In other words, San Gabriel estimated a
23 fixed discount for 2012-2013 of \$10.75, \$16.12, and \$26.87, respectively. The
24 wide range of discounts being given to CARW customers is significantly raising
25 the annual cost of the CARW program as shown in Table 12-B below:

¹⁸⁸ It may be that low-income customers are not evenly distributed across meter sizes.

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Table 12-B
Fontana's CARW budget calculation¹⁸⁹

Residential Meter Size	Avg. No. of Customers 2012-2013	Traditional '12- '13 Service Chg for calculation purposes only	Participation Rate	Discount to service meter
5/8 x 3/4-in.	22,800	\$21.49	30%	50%
3/4-in.	29	\$32.24	30%	50%
1-in.	16,837	\$53.73	30%	50%

3

Residential Meter Size	Discount/month	Discount/year	CARW Revenue Needed
5/8 x 3/4-in.	\$10.75	\$128.94	\$881,949.99
3/4-in.	\$16.12	\$193.44	\$1,688.78
1-in.	\$26.87	\$322.38	\$1,628,407.21
		Total	\$2,512,045.98

4 DRA's proposed methodology would result in nearly \$1 million of savings
5 to subsidizing ratepayers if the resulting discount were \$10.75. (The final CARW
6 discount should be calculated based on the Commission Adopted Revenue
7 Requirement in this case.)

¹⁸⁹ Application General Workpapers Revised Excel Spreadsheet, Tables RV5 and RV6a.

Table 12-C
DRA's CARW budget calculation

Residential Meter Size	Avg. No. of Customers 2012-2013	Traditional '12- '13 Service Chg for calculation purposes only	Participation Rate	Discount to traditional meter charge for surcredit calculation
5/8 x 3/4-in.	22,800	\$21.49	30%	50%
3/4-in.	29	\$32.24	30%	--
1-in.	16,837	\$53.73	30%	--

Residential Meter Size	Discount/month as Surcredit	Discount/year or Surcredit/year	CARW Revenue Needed
5/8 x 3/4-in.	\$10.75	\$128.94	\$881,949.99
3/4-in.	\$10.75	\$128.94	\$1,125.68
1-in.	\$10.75	\$128.94	\$651,302.27
		Total	\$1,534,377.94

It is necessary to balance the subsidy provided to low-income customers with the cost to ratepayers of providing the subsidy. Fontana's proposed CARW budget of \$2,512,046 for 2012-2013 is too high (Table RV6a in the Application General Workpapers Revised Excel Spreadsheet). It is nearly \$1 million more than the CARW discounts provided in 2010 of \$1,548,799. DRA's recommendation results in an estimate that is more in line with historical spending on the CARW program.¹⁹⁰

In addition, under Fontana's proposal, the monthly cost to subsidizing ratepayers embedded in their meter charge could be in the range of \$5 per month, an amount that would be burdensome on ratepayers, especially given the

¹⁹⁰ Historic actual annual cost of the CARW discount, which DRA calculated by adding the monthly costs of the CARW discount presented in Attachment C to SG-7, the direct testimony of Larry Magallanes, was \$1,109,225 in 2008, \$1,351,526 in 2009 and \$1,548,799 in 2010 (rounded to the nearest dollar).

1 continuing poor state of the economy. DRA knows of no other utility that gives a
2 different discount to low-income customers based on their meter size.

3 **6) Change Memorandum Account to Balancing Account**

4 When the Commission originally authorized the CARW program in 2005,
5 it authorized Fontana to track the costs of the program against the estimates
6 reflected in rates, until sufficient experience with the CARW program was
7 attained, such that costs could be reliably forecasted in a general rate case
8 proceeding.¹⁹¹ Now that Fontana has six years of experience with the program,
9 there is enough experience and data on program costs to forecast the costs reliably
10 in this General Rate Case.

11 DRA recommends that Fontana use a balancing account instead of a
12 memorandum account to better balance the *actual* funding collected with the
13 *actual* CARW expenditures on discounts. The Direct Testimony of Larry
14 Magallanes states that the balancing account records any differences between “the
15 estimated and actual benefits provided, to allow a subsequent true-up.”¹⁹² Instead
16 of comparing the estimated (authorized) benefits to the actual, Fontana should
17 base the true-up of the balance on the difference between *actual* money collected
18 to fund the CARW program and *actual* expenditures on low-income discounts as
19 this is more accurate. This change will ensure that Fontana is reimbursed based on
20 its actual costs.

21 **D. CONCLUSION**

22 For the reasons stated above, DRA recommends that the Commission adopt
23 the following recommendations:

¹⁹¹ See San Gabriel’s Preliminary Statement tariff sheet 2024-W, available on its website:
<http://www.sgvwater.com/wp-content/uploads/pdf/2024-W.pdf> (accessed 10/26/11), and D. 05-
05-015 p. 5-6.

1 1) CARW Program Participation Reporting and Verification. DRA
2 recommends that Fontana report both a participation rate of active CARW
3 customers divided by actual eligible customers, as well as report a participation
4 rate based on adopted residential customers. DRA recommends that Fontana be
5 required to randomly sample a group of CARW customers each quarter to verify
6 their income and to check that the high participation rate is not being inflated by
7 fraudulent claims. DRA recommends that Fontana report the results of its random
8 sampling with reporting on the CARW program in its General Rate Cases.

9 2) Remove CARW program costs and benefits from the rate design. DRA
10 recommends that Fontana use separate surcharges to collect funding for CARW
11 and surcredits to pay out discounts to low-income customers, rather than have the
12 funding and benefits wrapped into the rate design. Fontana should identify
13 surcredits as, “Low Income Credit” and surcharges as “Public Purpose Programs”
14 on its monthly bills.

15 3) CARW Surcharge – volumetric instead of fixed. DRA recommends that
16 Fontana use a volumetric surcharge applicable to *all* non-CARW water sales to
17 fund CARW.

18 4) Setting CARW Surcredit. DRA recommends that Fontana set the fixed
19 amount for the CARW discount equal to 50% of what the meter charge would
20 have been under the Commission standard rate design for residential customers
21 with 5/8” meters. This fixed discount, applied as a bill surcredit on CARW
22 program participant bills, should be the same for all low-income customers
23 regardless of meter size in that year.

(continued from previous page)

¹⁹² Direct Testimony of Larry Magallanes, SG-7, p. 8, lines 18-22.

1 5) Estimated CARW Budget. DRA recommends that the same CARW
2 discount be provided to all low-income CARW customers, and that Fontana sum
3 this amount across estimated CARW customers with 5/8", 3/4", and 1" meter sizes
4 to determine the total revenue needed to fund the CARW program per year.

5 6) Setting Volumetric Surcharge. The total amount of revenue needed for
6 the CARW program should then be divided by the total of *all* water sales
7 (excluding low-income customer sales) in order to calculate the volumetric
8 surcharge. This volumetric surcharge should only be applied to usage of non-
9 CARW customers.

10 7) Balancing Account Treatment. DRA recommends that San Gabriel use a
11 balancing account instead of a memorandum account to better balance the actual
12 funding collected with the actual CARW expenditures on discounts.

CHAPTER 13: BALANCING AND MEMORANDUM ACCOUNTS

A. INTRODUCTION

DRA reviewed the following memorandum and balancing accounts:

1) Water Supply Cost Balancing Account

Water Supply Cost Balancing Account (“Water Supply”) tracks monthly variances between the recorded purchased water costs and assessments and the related recovery through billed revenues, as well as interest (90-day commercial paper rate) on the average balance.¹⁹³ Decision (“D.”) 04-07-034 authorized Water Supply continued use of a full cost balancing account.¹⁹⁴ As of March 31, 2011, the Water Supply showed an overcollection of \$2,384,755. This balance is from January 2008 through March 2011. “In this application, San Gabriel also is requesting authorization to amortize any overcollection or undercollection remaining in this balancing account as of the time of the final decision.”¹⁹⁵

2) Power Supply Cost Balancing Account

Power Supply Cost Balancing Account (“Power Supply”) tracks monthly variances between power costs and the related recovery through billed revenues, as well as interest (90-day commercial paper rate) on the average balance.¹⁹⁶ D.04-07-034 authorized Power Supply continued use of a full cost balancing account.¹⁹⁷ As of March 31, 2011 the Power Supply showed an undercollection of \$143,796. This balance includes January 2008 through March 2011. “In this application, San Gabriel also is requesting authorization to amortize any

¹⁹³ Direct Testimony of Larry Magallanes , page 7.

¹⁹⁴ D.04-07-034, Ordering Paragraph 13.

¹⁹⁵ Direct Testimony of Larry Magallanes , page 7.

¹⁹⁶ Direct Testimony of Larry Magallanes , pages 7-8.

1 overcollection or undercollection remaining in this balancing account as of the
2 time of the final decision.”¹⁹⁸

3 **3) California Alternative Rates for Water Balancing Account**

4 California Alternative Rates for Water Balancing Account (“Alternative
5 Rates”) is designed for low income customers to receive a 50% reduction to the
6 monthly service charge. The customers enrolled in the program must show that
7 the household meets the criteria. According to D.05-05-015, the program’s costs
8 are covered through monthly service charges.¹⁹⁹ The balancing account was
9 established to track the differences between estimated and actual costs. This
10 account is subject to a reasonableness review.²⁰⁰ The balance as of March 2011
11 is an under collection of \$278,437. Fontana requested to amortize the remaining
12 balance in this account as of the time of the final decision.²⁰¹

13 **4) Water Revenue Adjustment Mechanism (“WRAM”)**

14 Fontana was authorized The Monterey-style WRAM.²⁰² The Monterey-
15 style WRAM records the variances in revenues actually billed under the
16 Conservation Rate Tariff Schedule No. FO-1C as compared to the revenues that
17 would have been billed under the General Metered Rate Tariff Schedule No. FO-1.
18 The variances occur because the forecasted mix of water sales between Tier 1 and
19 Tier 2 do not match the actual billed mix of water sales. The Monterey-style
20 WRAM does not track variances due to actual water sales being higher or lower

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¹⁹⁷ D.04-07-034, Ordering Paragraph 13.

¹⁹⁸ Direct Testimony of Larry Magallanes , page 8.

¹⁹⁹ D.05-05-015, Ordering Paragraph 1.

²⁰⁰ D.05-05-015, Ordering Paragraph 3.

²⁰¹ Direct Testimony of Larry Magallanes, page 9.

²⁰² D.10-04-031, Ordering Paragraph 4.

1 than the adopted levels.²⁰³ The balance as of March 31, 2011 is an
2 undercollection of \$193,439. Fontana requests to amortize any balance remaining
3 in this balancing account as of the time of the final decision.²⁰⁴

4 **5) Facilities Fee Memorandum Account (“Facilities Fee”)**

5 The Commission directed Fontana to establish a memorandum account for
6 recording facilities fees collected. The Commission required Fontana to file an
7 advice letter no later than November 15 for each year to update Fontana Division’s
8 ratebase by the amount in recorded in the Facilities Fee as Contribution in Aid of
9 Construction (“CIAC”).²⁰⁵ In the Direct Testimony of David Batt, Fontana states
10 that it should not include facilities fees in CIAC on jobs that have not begun.
11 Additionally, it states that there is no interest to record in Facilities Fees.²⁰⁶

12 **B. SUMMARY OF RECOMMENDATIONS**

13 DRA recommends the Commission authorize:

- 14 1. A surcredit in the amount of \$2,384,755 for overcollection in Water
15 Supply.
- 16 2. A surcharge in the amount of \$143,796 for undercollection in Power
17 Supply.
- 18 3. A surcharge in the amount of \$278,437 for undercollection in
19 Alternative Rates.

²⁰³ Direct Testimony of Larry Magallanes, page 9.

²⁰⁴ Direct Testimony of Larry Magallanes, page 10.

²⁰⁵ D.07-04-046, Ordering Paragraph 3.

²⁰⁶ Direct Testimony of Davit Batt, page 20.

1 4. A surcharge in the amount of \$193,439 for undercollection in
2 WRAM. However, DRA objects to Fontana's request to amortize
3 the entire remaining balance that would accrue from April 1, 2011
4 to the date of the final decision in this proceeding. DRA
5 recommends the Commission authorize Fontana to file a Tier 1
6 Advice Letter if the balance in the account exceeds 2% of the
7 revenue requirement or address it in its next general rate case.

8 DRA opposes exclusion of the projects that have not begun in the Facilities
9 Fees and not accruing 90-day commercial paper rate in a memorandum account.
10 DRA recommends the Commission require Fontana to comply with the previous
11 decision²⁰⁷ ordering Fontana to book the fees in the memorandum on the projects
12 that have not begun and add 90-day commercial paper rate from the date the funds
13 were received.

14 **C. DISCUSSION**

15 **1) Water Supply Cost Balancing Account**

16 DRA reviewed Water Supply from January 1, 2008 through March 31,
17 2011 and agrees with Fontana's calculation showing an overcollection of
18 \$2,384,755. DRA reviewed various supporting spreadsheets provided by Fontana
19 that show acre feet produced, actual cost per acre feet, and the costs authorized by
20 the Commission. In addition, DRA reviewed rate offsets authorized by the
21 Commission and netted against the costs, and interest calculations.²⁰⁸

²⁰⁷ D.07-04-046, Ordering Paragraph 3.

²⁰⁸ Documents reviewed by DRA: Attachment A Water Supply Balancing Account spreadsheet, Water Production Accrued 01-01-08 to 03-31-11; D.04-07-036 spreadsheet, Advice Letter ("AL") 376, AL 380, and AL 393.

1 DRA recommends the Commission authorize a refund for the reviewed
2 balance of \$2,384,755 to ratepayers. However, DRA opposes Fontana's request to
3 amortize the entire remaining balance starting April 1, 2011 at the end of the final
4 decision. The additional balance that accrues in the account starting April 1, 2011
5 should be subject to a reasonableness review. DRA recommends the Commission
6 authorize Fontana to file a Tier 1 Advice Letter if the remaining balance in the
7 account starting April 1, 2011 exceeds 2% of the revenue requirement or address it
8 in its next General Rate Case.

9 **2) Power Supply Cost Balancing Account**

10 DRA reviewed total acre feet of water produced and purchased and power
11 costs associated with it and compared how much was authorized in the rate
12 case.²⁰⁹ The difference represents the balance in Power Supply. Additionally,
13 90-day commercial paper rate was added to the balance. As of March 2011,
14 Power Supply shows an undercollection of \$143,796. In addition, DRA reviewed
15 Fontana's request to amortize the remaining balance that would accrue starting
16 April 1, 2011 until the final decision.

17 DRA recommends the Commission authorize recovery of the
18 undercollected balance of \$143,796 as of March 2011. However, DRA opposes
19 Fontana's request to amortize the entire remaining balance that would accrue
20 starting April 1, 2011 until the end of the final decision for the reasons stated above
21 in Section C.1.

²⁰⁹ Documents reviewed by DRA: D.04-07-034; D.09-06-027 and Settlement Agreement; Attachment B Power Balancing Account spreadsheet; Water Production Accrued 01-01-08 to 03-31-11; Power Cost 2008 to Mar 2011 spreadsheet.

1 **3) California Alternative Rates for Water**

2 DRA reviewed what was authorized in rates and compared with the actual
3 expenses associated with Alternative Rates.²¹⁰ The difference represents the
4 balance. Additionally, the 90-day commercial paper rate has been added to the
5 balance. The balance as of March 31, 2011 is \$278,437 as of March 2011. In
6 addition, DRA reviewed Fontana’s request to amortize the remaining balance that
7 would accrue starting April 1, 2011 until the final decision.

8 DRA recommends the Commission authorize a surcharge of \$278,437.
9 However, DRA opposes Fontana’s request to amortize the entire remaining
10 balance that would accrue starting April 1, 2011 until the end of the final decision
11 for the reasons stated above in Section C 1.

12 **4) Water Revenue Adjustment Mechanism (“WRAM”)**

13 DRA reviewed Fontana’s calculation of its WRAM and the Decision
14 authorizing the balancing account.²¹¹ The Monterey-style WRAM is calculated
15 by multiplying the total water sold under the conservation rate and comparing it
16 with the amount under the general metered rate. The difference becomes a
17 WRAM balance. Additionally, the 90-day commercial paper rate is added to the
18 total balance.

19 DRA does not oppose Fontana’s request to recover the \$193,439 balance in
20 WRAM as of March 2011. However, DRA opposes Fontana’s request to amortize
21 any remaining balance as of the time of the final decision. The WRAM is subject

²¹⁰ Documents reviewed by DRA: Attachment C CARW spreadsheet; D.09-06-027 and settlement agreement; AL 393; Data response JOH-1 Attach I-K; and CARW report (CWQ 130).

²¹¹ Documents reviewed by DRA: D.10-04-031, Attachment D Conservation WRAM spreadsheet; CCF Sales Billed to Customer spreadsheet; AL 390-A; AL 385, AL 392; and AL 399.

1 to a reasonableness review and should be amortized by filing a Tier 1 Advice
2 Letter or in Fontana's next General Rate Case.

3 The following quote from D.10-04-031, Ordering Paragraph 4 shows how
4 the WRAM balance should be amortized.

5 "4. Monterey-styled water revenue adjustment mechanisms shall be applied
6 in the two divisions.

7 (d) If the water revenue adjustment mechanism over- or undercollection
8 for either ratemaking division exceeds 2% of that area's total authorized
9 revenue requirement for the preceding calendar year, a tier 1 advice letter
10 shall be filed within 30 days by San Gabriel Valley Water Company that
11 requests amortization of the balance in the account, which applies only to
12 the residential class of customers. If the percentage is 2 or less, San Gabriel
13 Valley Water Company shall propose amortizing in the next General Rate
14 Case."

15 **5) Facilities Fee Memorandum Account**

16 Fontana insists that the facilities fees collected on jobs that have not begun
17 should not be included in the Facilities Fees. It states that homeowners may
18 change projects, reduce the number of connections or cancel the project entirely.
19 In such cases, Fontana is required to refund the fee.²¹² As an example, Fontana
20 stated that two projects that were included in CIAC in Advice Letter 358 had to be
21 refunded. DRA opposes such treatment of facilities fees collected on the jobs that
22 have not begun. Fontana indicated that as of December 28, 2010, the balance in
23 the memorandum account was \$885,300.²¹³ According to the data response²¹⁴
24 provided by Fontana to DRA, the refunds for jobs F21729 and 5014F were \$6,650
25 each. The total amount refunded was \$13,300, which is immaterial in comparison
26 with the total balance. In its response to DRA's data request NVK-001, Fontana
27 cited the following in D.07-04-046 as justification:

²¹² Direct Testimony of Davit Batt, page 20.

²¹³ Direct Testimony of Davit Batt, page 20.

²¹⁴ Fontana's response to DRA's data request NVK-001.

1 “1. All fees collected must be recorded in a memorandum account. They
2 shall be credited to CIAC at the time the fees are spent for additional
3 plant.”²¹⁵

4 However, the Ordering Paragraph 3 of D.07-04-046 states the following:

5 “3. Not later than November 15, 2007, and each succeeding year until
6 San Gabriel’s next GRC decision, San Gabriel shall file an advice letter in
7 conformance with GO 96-B, proposing new revenue requirements (and
8 corresponding revised tariff schedules) for the Fontana Division based on a
9 new rate base reflecting: (i) inclusion in utility plant of all investment
10 recorded during the then-current calendar year in the Sandhill Surface
11 Water Treatment Plant Upgrade Project; and (ii) inclusion in CIAC of all
12 revenues recorded in the facilities fee memorandum account during said
13 calendar year. The advice letter shall include appropriate supporting
14 workpapers. The revised tariff schedules shall take effect on January 1 of
15 the succeeding calendar year and shall apply to service rendered on or after
16 their effective dates. The proposed revised revenue requirements and rates
17 shall be reviewed by the Commission’s Water Division, which shall inform
18 the Commission if it finds that the revised rates do not conform to the Rate
19 Case Plan, this order, or other Commission decisions, in which case all
20 revenues collected under the revised rates shall be subject to refund until
21 the Commission has decided the matter.” (Emphasis added).

22
23 Therefore, DRA believes that all the fees recorded in the memorandum
24 account should be included in CIAC as required by Ordering Paragraph 3 in D.07-
25 04-046.

26 Additionally, DRA does not agree with Fontana’s statement that there is no
27 interest to record because more money has been spent on the Sandhill Upgrade
28 Project that has been collected in facilities fees.²¹⁶ The Commission directed
29 Fontana to file an advice letter no later than November 15. Once the advice letter
30 is approved, Fontana is authorized to reduce the costs of the Sandhill Project by
31 the amount in the advice letter. DRA believes that between advice letter filings

²¹⁵ D.07-04-046, pages 68-69.

²¹⁶ Direct Testimony of Davit Batt, page 20.

1 the Facilities Fees should accrue 90-day commercial paper rate as is required for
2 all memorandum and balancing accounts under Standard Practice U-27-W.²¹⁷
3 Fontana also fails to cite to any part of D.07-04-046 where the Commission finds
4 or concludes that the 90-day commercial paper rate should not apply to its
5 memorandum account.

6 **D. CONCLUSION**

7 DRA recommends the Commission authorize the following: (1) a surcredit
8 in the amount of \$2,384,755 for overcollection in Water Supply; (2) a surcharge in
9 the amount of \$143,796 for undercollection in Power Supply; (3) a surcharge in
10 the amount of \$278,437 for undercollection in Alternative Rates; and (4) a
11 surcharge in the amount of \$193,439 for undercollection in WRAM. However,
12 DRA objects to Fontana's request to amortize the entire remaining balance that
13 would accrue from April 1, 2011 to the date of the final decision in this
14 proceeding.

15 DRA recommends the Commission direct Fontana to include facilities fees
16 in the Facilities Fee Memorandum Account as was previously authorized in
17 D.07-04-046, Ordering Paragraph 3. Additionally, DRA recommends the
18 Commission authorize the company to accrue the 90-day commercial paper rate in
19 the memorandum account.

²¹⁷ See Standard Practice U-27-W, page 7.

CHAPTER 14: CONSERVATION

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Fontana's conservation expenses. Table 14-A below shows Fontana's budget request for Test Year 2012-2013: ²¹⁸

Table 14-A
Fontana's Proposed Budget

	Test Year Budget 2012-2013
Regional Programs	
Residential Incentive Program	\$62,525
Residential High Efficiency Toilet Installation Program	
Single-Family	\$30,600
Multi-Family	\$3,048
CII Save-A-Buck Program	\$24,525
Subtotal	\$120,698
Local Programs	
Residential Audit	
Weather Based Irrigation Controllers	\$10,920
Residential Landscape Retrofit Program	\$33,600
Water Conservation Kits	\$8,750
CII Audit Reports	\$15,000
CII Retrofit Programs	\$310,000
Education/Public Outreach	\$75,000
Industrial Water Broom	
Water2Save	
Misc. & Customer Promotional Items	
Subtotal	\$453,270
Total	\$573,968

²¹⁸ Figure 2 of Direct Testimony of Robert J. DiPrimio (SG-5).

B. SUMMARY OF RECOMMENDATIONS

1) Conservation Budget and Recommendation

DRA recommends that the Commission authorize a total annual conservation budget of \$147,578 for Test Year 2012-2013 with escalation factors added for years 2013-2014 and 2014-2015 when the rates become effective. Table 14-B below shows a comparison of Fontana's request and DRA's recommendation.

Table 14-B
Comparison between Fontana's Proposed Budget
and DRA's Recommended Budget

	Test Year Budget 2012/2013	DRA Recommendation
<i>Regional Programs</i>		
Residential Incentive Program	\$62,525	\$0
Residential High Efficiency Toilet Installation Program		
Single-Family	\$30,600	\$14,040
Multi-Family	\$3,048	\$1,848
CII Save-A-Buck Program	\$24,525	\$2,172
<i>Subtotal</i>	<i>\$120,698</i>	<i>\$18,060</i>
<i>Local Programs</i>		
Residential Audit		
Weather Based Irrigation Controllers	\$10,920	\$9,620
Residential Landscape Retrofit Program	\$33,600	\$0
Water Conservation Kits	\$8,750	\$4,375
CII Audit Reports	\$15,000	\$3,000
CII Retrofit Programs	\$310,000	\$105,461
Education/Public Outreach	\$75,000	\$13,458
Industrial Water Broom		
Water2Save		
Misc. & Customer Promotional Items		
<i>Subtotal</i>	<i>\$453,270</i>	<i>\$135,914</i>
Total	\$573,968	\$153,974

1 **2) One Way Balancing Account**

2 DRA recommends that Fontana’s expenses continue to be tracked in a
3 capped, one-way balancing account as authorized in D.11-05-004.²¹⁹ This will
4 track the difference between dollars spent on conservation and dollars collected in
5 rates for conservation. Any unspent funds should be refunded to ratepayers.

6 **3) Reporting Requirements**

7 Fontana should be required to include in Schedule E-3 of its annual report
8 ten random audits for each new quantifiable program and include actual water
9 savings per customer in its summary. These requirements should be in addition to
10 existing reporting requirements as set forth in D.11-05-004, which should
11 continue. These reporting requirements should not prevent DRA from requesting
12 additional data in the future.

13 Upon request, Fontana should be required to provide DRA with a copy of
14 its California Urban Water Conservation Council’s (“CUWCC”) Best
15 Management Practices (“BMP”) Implementation Reports, which is filed with the
16 CUWCC every other year providing information on the progress being made
17 towards implementing the BMP process.

18 **C. DISCUSSION**

19 **1) Conservation Budget and Request**

20 Fontana organized its conservation programs into two categories: Regional
21 and Local Programs. Regional Programs focuses on rebate programs for
22 customers while Local Programs addresses all other conservation programs.
23 Mr. Robert DiPrimio in his testimony states that in forecasting water conservation
24 expenses, Fontana took into consideration the “previously adopted conservation

²¹⁹ A capped, one-way balancing account is commonly used in Class A water companies as an accountability mechanism to track conservation expenses.

1 budget, current costs for conservation programs, and planned future conservation
2 programs”.²²⁰

3 Mr. Robert DiPrimio states that in evaluating various conservation
4 programs it considered: a) the cost effectiveness of the current program;
5 b) measurable water savings; c) current participation levels; and d) customer
6 acceptance through participation in community events/expos.²²¹

7 Fontana’s proposed conservation programs are made up of Best
8 Management Practices, which are described in CUWCC’s Memorandum of
9 Understanding. Fontana selected the “Gallons-per-Capita-per-Day (“GPCD”)
10 option for reporting its BMPs and included Foundational BMPs²²² in its proposal.

11 **2) Conservation Program Evaluation Criteria**

12 To develop its recommended conservation activities and budgets, DRA
13 evaluated the prepared testimony of Robert DiPrimio, previous settlement
14 agreements, annual reports and responses to data requests, and considered other
15 factors such as:

16 (a) State and local current economic situation

17 California is still experiencing economic and fiscal problems. While
18 studies have shown that the nation is emerging from a recession, California is
19 continuing to lag. For example, California’s unemployment rate is 11.9 % with
20 San Bernardino County alone at 12.9%.²²³ Home foreclosures are still emerging,

²²⁰ Mr. DiPrimio (SG-5) testimony, pg. 18.

²²¹ Ibid, pgs. 18-19.

²²² Foundational BMPs are considered to be essential water conservation activities and include Utility Operations and Education, CUWCC MOU, pg 14.

²²³ http://www.edd.ca.gov/About_EDD/pdf/urate201110.pdf

1 construction and technology industries are still experiencing a decline in sales and
2 at least half of California voters have reported a decline in their personal economic
3 situation.²²⁴

4 Fontana acknowledges this as well. In his testimony, Mr. Larry Magallanes
5 states that Fontana is experiencing an increase in its California Alternative Rates
6 for Water program participation²²⁵ from 17.7% in January 2008 to 29.4% in
7 March 2011.²²⁶

8 (b) Fontana's current 20x2020 status

9 On February 28, 2008, Governor Schwarzenegger presented a plan to
10 achieve a 20 percent reduction in per capita water use statewide by 2020. In 2010,
11 Fontana exceeded its 2015 target of 197.20 GPCD by achieving 178.30 GPCD and
12 is fairly close to meeting its 2020 target of 175.20 GPCD. Despite this, DRA still
13 maintains a basic cost-effective conservation program as good public policy.

14 **3) Conservation Programs (Best Management Practices)**

15 **Regional Programs**

16 (a) Residential Incentive Program

17 DRA opposes Fontana's proposed Residential Incentive Program budget of
18 \$62,525 for several reasons.

19 First, in its response to DRA's Data Request MA1-001, Fontana explains
20 that the company used a three-year average of residential rebates provided by the

²²⁴ <http://www.sacbee.com/2011/09/27/3940868/half-of-california-voters-report.html>

²²⁵ The California Alternative Rates for Water Program provides customers who currently qualify under the California Alternative Rates for Energy or low-income customers a discount in their water utility bill.

²²⁶ Mr. Magallanes testimony (SG-7) pg. 8 and Attachment C.

1 Inland Empire Utilities Agency²²⁷ to its customers as the basis to forecast the
2 number of rebates for this program. DRA believes Fontana's method to determine
3 the total number of rebates for its residential program is not accurate. Fontana's
4 current proposal includes rebates such as the replacement of natural turf,²²⁸ an
5 activity not included in Inland Empire Utilities Agency's previous rebate program.
6 It is unclear and Fontana did not provide justification explaining why it used
7 Inland Empire Utilities Agency's number of rebated items for certain activities to
8 predict the number of rebates needed for other activities.

9 Second, DRA believes Fontana's High Efficiency Clothes Washer rebate
10 proposal is duplicative of the Inland Empire Utilities Agency's rebate program.
11 The Inland Empire Utilities Agency is still offering these rebates to Fontana's
12 residential customers.²²⁹

13 Finally, Fontana included in its proposal \$12,500 for Single Family High
14 Efficiency Toilets and \$240 for Weather Based Irrigation Controllers, both of
15 which DRA believes are duplicative of Fontana's Residential High Efficiency
16 Toilet Installation Program and Weather Based Irrigation Controllers programs,
17 respectively. As described below, Fontana's Residential High Efficiency Toilet
18 program is more cost effective than Fontana's Residential Incentive program.

19 Therefore based on the reasons provided above, DRA recommends a total
20 disallowance \$62,525 for Fontana's Regional Residential Incentive Program.

²²⁷ Inland Empire Utilities Agency is a municipal water district which sponsors and offers different type rebate programs in the Inland Empire area.

²²⁸ Mr. DiPrimio (SG-5) testimony, pg, 21.

²²⁹ <http://www.ieua.org/conservation/rebate/residential.html>

1 (b) Residential High Efficiency Toilet (“HET”) Installation Program

2 DRA opposes Fontana’s proposed budget of \$33,648 (\$30,600 for Single
3 Family and \$3,048 for Multi-Family) for its Regional Residential HET
4 Installation Program. DRA recommends a reduced budget of \$14,040 for 390
5 units at \$36 per unit for Single Family residential customers and \$1,848 for 77
6 units at \$24 per unit for Multi Family residential customers for a total of \$15,888.

7 In his testimony, Mr. DiPrimio states that Fontana entered into a
8 Memorandum of Understanding with Inland Empire Utilities Agency, whereby
9 Fontana will pay \$24 and \$36 for each HET installed in a multi-family and single
10 family residential home, respectively. ²³⁰

11 Fontana’s method of projecting the total number of customers does not give
12 an accurate representation of HET installations needed for the program.

13 In its response to Data Request MA1-001, Fontana states that Fontana used
14 a ratio of 0.2% for Single Family and 0.3% for Multi Family residential customers
15 from the total of each customer’s classification to project the total number of
16 participating customers ²³¹ in each class. Fontana explains, in an email dated July
17 29, 2011 that “this level of coverage is determined by customer’s response.” In
18 response to Data Request MA1-001, Fontana further clarifies that “customer
19 response” means the three-year average of rebates issued by Inland Empire
20 Utilities Agency and positive customer feedback they received for the Direct
21 Toilet Installation Program during public events.

²³⁰ Mr. DiPrimio (SG-5) testimony, pg, 21.

²³¹ Fontana used a ratio of 0.2% or 850 Single Family and 0.3% or 127 Multi Family residential customers to project the total number of participating customers for its residential High Efficiency Toilet installation program.

1 However, Fontana’s response to Data Request MA1-001 ²³²provides a total
2 three-year average of 390 HET units (460 units less than Fontana’s proposed
3 number) distributed to Single Family residential customers and 77 HET units (50
4 units less than Fontana’s proposed number) distributed to Multi Family residential
5 customers.

6 The California Urban Water Conservation Council states that toilet fixture
7 replacement represented one of the most popular water efficiency initiatives of the
8 1990s. The same agency also points out that “many water providers with
9 aggressive replacement programs are approaching a level of “saturation” in their
10 residential sector.”²³³ HET rebates have been offered to single and multi-family
11 residential customers since 2002.

12 DRA believes that the number of single family and multi family residential
13 participants for this program should be in sync with the current levels of
14 saturation. Fontana did not provide a defensible justification that would support
15 its request. Therefore, based on information provided by Fontana, DRA
16 recommends a reduced budget for 390 HET rebates for single family residential
17 customers and 77 HET rebates for multi-family residential customers.

18 DRA supports the HET program. This program offers water incentive
19 savings and does not target any special interest or group, but rather, it ensures
20 equal conservation opportunities for all sectors that qualify for the program.
21 Further DRA believes Fontana’s Residential HET Installation Program is cost
22 effective as compared to Fontana’s Residential Incentive Program. However,
23 DRA believes that Fontana’s proposed number of HET rebates is too high as

²³² Attachment A of Fontana’s Response to Data Request MA1-001

²³³ CUWCC Resource Center on Toilet Fixtures, <http://www.cuwcc.org/resource-center/products/toilet-fixtures/MaP-UNAR.aspx>

discussed above. Therefore, DRA’s recommendation of \$14,040 (390 units at \$36 per unit) and \$1,848 (77 units at \$24 per unit) for Fontana’s HET Installation Program for its Single Family and Multi Family residential customers, respectively, is reasonable.

(c) Commercial, Industrial, and Institutional (“CII”) Save A Buck

DRA disagrees with Fontana’s proposed budget of \$24,525 (\$23,950 plus an escalation rate of 2.4%) for its CII Save A Buck Program.

In his testimony, Mr. DiPrimio states that it proposes to participate in the Inland Empire Utilities Agency’s CII Rebate program by offering rebates, such as the cooling tower conductivity controller, connectionless food steamer, and steam sterilizer retrofits to its CII customers. ²³⁴

In response to DRA Data Request MA1-001, Fontana provided the following detail to support its proposed budget:

Table 14-C
Fontana Proposed CII Rebates (Data Request MA1-001)

	Inland Empire Utilities 3-Year Avg.	Cost/Unit	Total Cost
WBIC CCI		\$130	\$910
Large Rotary		\$10	\$73
Rotating Nozzle	40	\$4	\$172
pH Cooling		\$1,750	\$5,250
Cooling Tower		\$625	\$1,875
Dry Vacuum		\$125	\$875
Food Steamers		\$485	\$1,455
Ice Machines		\$300	\$2,100
Ultra Low Flush Urinals	16	\$125	\$2,000
MF HET	77	\$120	\$9,240
Total			\$23,950

²³⁴ Mr. DiPrimio (SG-5) testimony, pg. 21

1 In its response to Data Request MA1-001, Fontana further explains that the
2 company used the total number of rebates distributed by Inland Empire Utilities
3 Agency to its customers for past three years to determine the projected number of
4 customers for this program. (See Table 14-D below)

5 **Table 14-D**
6 **Inland Empire Three Year CII Save-A-Buck Average**

Waterless Urinals	30
HECW	2
Water Brooms	0
Rotating Nozzle	40
Pre-Rinse Nozzles	0
Ultra Low Flush Urinals	16
Multi Family HET	77

7 However, of the items listed in Table 14-D above, Fontana already included
8 the Multi Family HET component under its Residential HET Installation program,
9 and only two items, the Rotating Nozzle and Ultra Low Flush Urinals are included
10 in Fontana's proposal.

11 Further, in A.08-07-009, Fontana proposed to offer several CII rebate
12 items, but only implemented the Ultra Low Flush Toilets and Urinals.

13 As a result, DRA could not accurately assess Fontana's past CII program
14 and activity levels to support Fontana's proposal. Based on Fontana's historical
15 data and inconsistency of items listed in Inland Empire Utilities Agency's
16 three-year average (Table 14-C) with items listed in Fontana's response to Data
17 Request MA1-001 (Table 14-D), it is unclear as to what devices Fontana will offer
18 to its customers. Therefore, based on Fontana's historical data, DRA's
19 recommendation of a disallowance of \$21,778 and a budget of \$172 for the
20 rotating nozzles and \$2,000 for the Ultra Low Flush Urinals for a total of \$2,172 is
21 reasonable.

1 **Local Programs**

2 (d) Weather Based Irrigation Controllers

3 Fontana proposes a budget of \$10,920 for its Weather Based Irrigation
4 Controller program. DRA supports Fontana's Weather Based Irrigation Controller
5 program, but recommends a reduction of \$1,300 for a total budget of \$9,620.

6 In his testimony, Mr. DiPrimio states that Fontana proposes to distribute
7 Weather Based Irrigation Controller devices to customers attending Fontana's
8 gardening workshop events. Each Weather Based Irrigation Controller device
9 costs \$260 and Fontana proposes to host four gardening and landscaping
10 workshops at its facility.²³⁵

11 DRA supports Fontana's Weather Based Irrigation Controllers program.
12 Studies have shown that if installed correctly, a household can reduce their
13 outdoor water use by about 20%.²³⁶

14 Fontana explains that to determine the number of customers for the
15 program, it multiplied the total number of residential customers by 0.1% (or 42
16 customers)²³⁷ and Fontana requests 42 Weather Based Irrigation Controller
17 devices. Fontana further stated that as a reasonableness check, the actual number
18 of Weather Based Irrigation Controller devices distributed for 2009/10 and
19 2010/11 are 46 and 27, respectively, or an annual average of 37 controllers
20 distributed.

²³⁵ Ibid

²³⁶ <http://www.toolbase.org/Building-Systems/Landscaping/smart-irrigation-controls>.

US Environmental Protection Agency, Water Sense, Draft Specification for Weather-Based Irrigation Controllers Supporting Statement.

²³⁷ Response to Data Request MA1-001

1 Therefore, based on Fontana's average of 37 Weather Based Irrigation
2 Controllers distributed in 2009/10 and 2010/11 at a cost of \$260 each. DRA
3 recommends a reduction of \$1,300 from Fontana's proposed budget of \$10,920 for
4 a total of \$9,620.

5 (e) Residential Landscape Retrofit Program

6 DRA disagrees with Fontana's proposed budget of \$33,600 for the
7 Residential Landscape Retrofit Program and recommends a total disallowance of
8 Fontana's budget of \$33,600.

9 In his testimony, Mr. DiPrimio states that Fontana proposes to offer
10 landscape audits to its customers, a free Weather Based Irrigation Controller
11 device and new high efficiency sprinkler nozzles to the largest water users. ²³⁸

12 Fontana's proposal lacks the rationale for this request. For example, in
13 response to Data Request MA1-001, Fontana explains that based on the
14 Conservation Coordinator's working knowledge of the residential audit program,
15 it used a percentage of 1% from its total residential customers or 42 customers to
16 determine the total number of customers for the program. Fontana did not provide
17 a breakdown for the \$800 per unit cost as requested.

18 DRA believes using ratios to determine the total number of program
19 participants does not provide an accurate projection for the number of residential
20 landscape retrofit program participants. Instead, Fontana should target program
21 efforts by identifying those customers who historically irrigate in excess of the
22 irrigation requirement. In response to Data Request MA1-001, Fontana states
23 that Weather Based Irrigation Controllers costs approximately \$260 and studies
24 have shown that it is important that the person responsible for the irrigation system

²³⁸ Ibid, pg. 23

1 have proper training in system installation, maintenance and management.²³⁹
2 Further, studies have shown that without proper training, those who historically
3 apply less than the theoretical irrigation requirement for their landscape are likely
4 to increase water use after installing a smart controller.”²⁴⁰ This means that
5 proper training should be required prior to the distribution of a weather based
6 irrigation controller to ensure that the smart controller performs optimally and
7 does not end up unnecessarily increasing water use.

8 Therefore, based on results from several studies as described above, DRA
9 recommends that Fontana provide proper training on Weather Based Irrigation
10 Controller installation and maintenance, a program already offered by Fontana
11 under its Weather Based Irrigation Controllers (discussed in Section b) above) to
12 its customers prior to distributing these units.

13 (f) Water Conservation Kits

14 Fontana proposes a budget of \$8,750 for water conservation kits. Fontana
15 states that conservation kits are distributed to customers at its main office and at
16 various public outreach events.²⁴¹ Fontana states that in 2010/11, it increased its
17 sponsorship in public outreach events and as a result has increased the water
18 conservation kits it plans to distribute to its customers.

19 DRA supports this program, but recommends a reduction of \$4,375 or 50%
20 of Fontana’s proposed budget. Fontana’s 2-year average for this program from
21 mid-2009 through mid-2011 is \$4,087.

²³⁹ Federal Energy Management Program: Best Management Practice: Water Efficiency Irrigation.

²⁴⁰ <http://www.toolbase.org/Building-Systems/Landscaping/smart-irrigation-controls>,

US Environmental Protection Agency, Water Sense, Draft Specification for Weather-Based Irrigation Controllers Supporting Statement.

1 DRA does not believe that a 100% increase in the budget for distributing
2 water conservation kits will produce an increase in water saving benefits to
3 ratepayers. Fontana customers are already highly sensitized to water conservation
4 as confirmed by Fontana's exceeding its 2015 20x2020 goal. Further, DRA
5 believes that while it is important to continuously provide public outreach to
6 Fontana customers, this level of spending in the current economic climate is
7 unnecessary. Therefore, DRA recommends a reduced budget of \$4,375.

8 (g) Commercial, Industrial and Institutional Audit Reports

9 DRA finds Fontana's proposed budget of \$15,000 (or \$1,500 per audit for
10 ten audits per year) for Commercial, Industrial and Institutional Audit Reports
11 excessive. DRA recommends a budget of \$7,500.

12 Mr. DiPrimio in his testimony states that the purpose of the Commercial,
13 Industrial and Institutional Audit program is to review and identify inefficient
14 indoor water fixtures and outdoor irrigation systems that need repair. ²⁴²

15 Fontana did not provide justification for its proposed budget nor did it
16 provide any explanation on how ten audits per year can effectively be managed by
17 its conservation staff. Instead, Fontana provided two conflicting statements in its
18 response to Data Request MA1-001. First, Fontana states that the "Conservation
19 Coordinator has determined that *ten* Commercial Industrial and Institutional audits
20 per year can be effectively managed by its conservation staff." However, in the
21 same response, Fontana states that its "Conservation Coordinator can manage *four*

(continued from previous page)

²⁴¹ Mr. DiPrimio (SG-5) testimony, pg. 23

²⁴² Ibid

1 elementary/middle schools and *one* high school per year” for a total of five audits
2 per year. ²⁴³

3 Given the current economic situation and Fontana’s compliance with its
4 2015 20x2020 goal, DRA recommends that Fontana conduct two Commercial
5 Industrial and Institutional audits, limited only to schools, per year at \$1,500 per
6 audit for a total budget of \$3,000 per year.

7 (h) Commercial, Industrial and Institutional Retrofit Programs

8 Fontana proposes a budget of \$310,000 for its Commercial, Industrial and
9 Institutional Retrofit Program.

10 In his testimony, Mr. DiPrimio states that Fontana’s Commercial, Industrial
11 and Institutional Retrofit program will complement its Commercial, Industrial and
12 Institutional Audit program. Mr. DiPrimio further explains that the purpose of this
13 program is to provide funding to Commercial, Industrial and Institutional
14 customers making changes recommended in the audit report. ²⁴⁴

15 In response to Data Request MA1-001, Fontana explains that it had already
16 contacted Fontana Unified School District to discuss potential funding for its
17 schools. To estimate the cost for the program (or \$52,730 per school), Fontana
18 explains that it took an average from five schools, which Fontana surveyed to
19 determine installation requirements and added an escalation factor of 2.4%. ²⁴⁵

20 DRA disagrees with Fontana’s proposed budget. First, Fontana included a
21 budget of \$23,730 for the City of Fontana’s Weather Based Irrigation Controller
22 program. Fontana did not provide any description, justification or explanation as

²⁴³ Response to Data Request MA1-001.

²⁴⁴ Mr. DiPrimio SG-5 testimony, pg. 23.

²⁴⁵ Response to Data Request MA1-001

1 to what this program is about. In addition, this program is not included in
2 Fontana's Commercial, Industrial and Institutional Audit program, which Fontana
3 intends to compliment with the Commercial, Industrial and Institutional Retrofit
4 program. Second, given the current economic situation and Fontana's compliance
5 with its 2015 20x2020 goal, DRA recommends Fontana complement its
6 Commercial, Industrial and Institutional Audit Program with two school retrofits
7 per year for a total budget of \$105,461 or \$52,730 per school.

8 (i) Education/Public Outreach

9 DRA finds Fontana's proposed Education/Public Outreach budget of
10 \$75,000 unreasonable and recommends a reduction of \$61,542 for a total budget
11 capped at \$13,458 per year.

12 In response to Data Request MA1-001, Fontana explains that it used the
13 2010/11 actual budget of \$75,482 to forecast its budget of \$75,000 for Test Year
14 2012/13.

15 DRA disagrees with the method Fontana used to forecast its budget. First,
16 Fontana included items that do not provide water savings or water conservation
17 information to customers. These items include among others, Single Lens Reflex
18 cameras, food, and give-away trinkets such as pens, bottles, erasers, rulers,
19 stickers/crayons and table clothes. Second, Fontana explains that it increased its
20 public events participation from 7 to 15 in 2010/11.

21 DRA does not believe that this level of outreach and public participation is
22 necessary. Instead, DRA believes that Fontana should limit its outreach and
23 public participation to one third of its proposal because Fontana customers have
24 been conserving water as evidenced by Fontana's exceeding its 2015 20x2020

1 goal and 30% of Fontana customers are experiencing a decline in their personal
2 economic situation.²⁴⁶

3 Therefore, DRA removed the costs associated with the items described
4 above from Fontana's total for a total of \$40,373 and further divided this by three
5 for a total capped budget of \$13,458 per year for Fontana's Education/Public
6 Outreach program.

7 **D. CONCLUSION**

8 DRA believes its recommended budget is reasonable and requests the
9 Commission approve a budget of \$153,974 for Test Year 2012-2013 with
10 escalation factors added for years 2013-2014 and 2014-2015 when the rates
11 become effective for San Gabriel Fontana Water Company's Conservation
12 Program.

²⁴⁶ Mr. Larry Magallanes testimony states that Fontana is experiencing an increase in its California Alternative Rates for Water program participation from 17.7% in January 2008 to 29.4% in March 2011.

1 **CHAPTER 15: SANDHILL WATER TREATMENT**
2 **PLANT UPGRADE**

3 **A. INTRODUCTION**

4 In addition to the 2011-2014 plant addition adjustments presented in
5 Chapter 7 of this report, DRA recommends the following adjustments to recorded
6 costs as part of DRA’s reasonableness review of Fontana’s Sandhill Water
7 Treatment Plant Upgrade that was completed in December of 2008.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 DRA finds that only 24.3 million gallons per day (“MGD”) of the 29 MGD
10 rated capacity of the Sandhill Water Treatment Plant is currently used and useful.
11 Because the Sandhill Water Treatment Plant Upgrade was meant to provide an
12 increase in capacity from 17 MGD to 29 MGD, and 24.3 MGD is now in use, only
13 61% of the Upgrade has been used and useful.

14 Therefore, DRA recommends a 39% capacity adjustment to the portion of
15 ratebase in the Test Year associated with the Sandhill Water Treatment Plant
16 Upgrade. This adjustment should be effective until Fontana meets its burden of
17 proof and can show that the full 29 MGD capacity of the Sandhill Water
18 Treatment Plant is used and useful.

19 DRA further recommends that the Commission require, pursuant to
20 Ordering Paragraph 16 of D.09-06-027, that Fontana refund to ratepayers 39% of
21 the capital costs, with interest, associated with the Sandhill Water Treatment Plant
22 Upgrade that were collected in rates or offset with facilities fees.

23 The Sandhill Water Treatment Plant Upgrade was completed in December
24 of 2008 and the full capacity of the plant has not been, and currently is not, used
25 and useful.

1 DRA estimates that the appropriate reduction to plant-in-service is
2 approximately \$15.7 million in the Test Year 2012-2013, with an associated
3 reduction of \$13.2 million to ratebase, and that the total refund due to ratepayers is
4 \$11.5 million.

5 C. BACKGROUND

6 1) Reasonableness Review of the Sandhill Water Treatment Plant

7 In D.09-06-027, the Commission ordered that San Gabriel's rates be subject
8 to refund with interest regarding the revenue requirement associated with the
9 Sandhill Water Treatment Plant Upgrade pending a reasonableness review, in this
10 General Rate Case, of the following issues:

- 11 1. Southern California Edison Company's contractual obligation to provide
12 Lytle Creek water to the Sandhill Water Treatment Plant;
- 13 2. The adequacy of Southern California Edison Company's facilities to
14 deliver sufficient water for the Sandhill Water Treatment Plant to operate at
15 its full 29 MGD capacity; and
- 16 3. The capability of the Sandhill Water Treatment Plant to treat 29 MGD of
17 Lytle Creek water, if sufficient water is available.²⁴⁷

18 Ordering Paragraphs 17, 18, and 19 of D.09-06-027 describe specific
19 requirements for San Gabriel to follow as part of a reasonableness review of these
20 three Sandhill Water Treatment Plant issues. Ordering Paragraph 20 authorizes the
21 costs of \$40,307,114 for the Sandhill Water Treatment Plant Upgrade to be filed in
22 a ratebase offset advice letter.²⁴⁸

²⁴⁷ D.09-06-027, p. 114, Ordering Paragraph 16.

²⁴⁸ D.09-06-027, pp. 114 – 115, Ordering Paragraphs 17-20:

(continued on next page)

1 In its current Application, San Gabriel has provided testimony in response
2 to the requirements set out in D.09-06-027: the first two requirements regarding
3 the obligation and the adequacy of Southern California Edison Company's
4 facilities to deliver sufficient water for the Sandhill Water Treatment Plant to
5 operate at its full 29 MGD capacity is provided in the Direct Testimony of Robert
6 J. DiPrimio (SG-5) pages 2-11, and the third requirement regarding the capability
7 of the Sandhill Water Treatment Plant to treat 29 MGD of Lytle Creek water (if
8 sufficient water is available) is provided in the Direct Testimony of Frank A.
9 LoGuidice (SG-6) page 20, and in the hydraulic assessment prepared by Civiltec
10 Engineering Inc. included as the Direct Testimony of C. Shem Hawes (SG-13).

11 **2) Background on the Sandhill Water Treatment Plant**

12 The Sandhill Water Treatment Plant, at Fontana's Plant F14 site, was
13 originally designed and constructed in the 1960's with a diatomaceous earth filter
14 unit. The Sandhill Water Treatment Plant underwent a recent upgrade, the subject
15 of the reasonableness review in this General Rate Case, which maintained use of

(continued from previous page)

"Ordering Paragraph 17: In its next general rate case for the Fontana Division, San Gabriel Valley Water Company shall provide a thorough affirmative showing regarding Southern California Edison Company's contractual obligation and the adequacy of Southern California Edison Company's facilities to deliver sufficient water to the afterbay for the Sandhill Water Treatment Plant to operate at its full 29 million gallon per day capacity.

Ordering Paragraph 18: San Gabriel Valley Water Company shall make a reasonable effort to obtain Southern California Edison Company's input regarding the adequacy of Southern California Edison Company's facilities to provide sufficient water to the afterbay for the Sandhill Water Treatment Plant, when sufficient Lytle Creek water is available, and make this information available to other parties in San Gabriel Valley Water Company's next GRC.

Ordering Paragraph 19: In its next general rate case for the Fontana Division, San Gabriel Valley Water Company shall provide a thorough affirmative showing regarding the capability of the Sandhill Water Treatment Plant to treat 29 MGD of Lytle Creek water, if sufficient water is available. The showing shall include a complete explanation of how the Sandhill Water Treatment Plant will operate to do so.

Ordering Paragraph 20: San Gabriel Valley Water Company is authorized to file a ratebase offset advice letter to incorporate total Sandhill Water Treatment Plant costs of \$40,307,114."

1 the diatomaceous earth filter, added conventional dual media filter beds, and
2 provided pretreatment capabilities²⁴⁹ for both of the filter types. This upgrade was
3 completed in December 2008, but has been a contentious issue since it was first
4 discussed in 2005, in San Gabriel’s General Rate Case proceedings, A.05-08-021,
5 and subsequently in A.08-07-009, San Gabriel’s next General Rate Case. Excerpts
6 containing the history and description of the Sandhill Water Treatment Plant
7 provided in D.07-04-046 (A.05-08-021 General Rate Case) are provided here:

8 “In 1960, San Gabriel joined with Fontana Union to build a surface water
9 treatment facility including a microstrainer and chlorination facilities
10 owned by San Gabriel. Upon notification by CDHS in 1962 that the
11 microstrainer provided inadequate treatment, San Gabriel selected
12 diatomaceous earth (DE) filtration as a replacement and in 1965 completed
13 installation of a 10 MGD DE surface water filtration treatment plant, later
14 expanded to 20 MGD, which CDHS approved in 1968 as adequate for
15 treating Lytle Creek surface water but not SWP water.

16 ...

17 After several years’ operation, the limited capacity of DE filtration to deal
18 with high turbidity became apparent. The passage of clay through the DE
19 filters caused effluent turbidity to rise to the maximum level permitted
20 under federal and state regulations, making it necessary under such
21 circumstances to shut down the plant. The required shutdown of surface
22 water processing through the Sandhill plant has deprived the Fontana
23 Division of thousands of acre feet of low-cost surface water, including over
24 25,000 acre feet just in the first five months of 2005.

25 ...

26 [Fontana’s] Water System Master Plan recommends modifying the Sandhill
27 plant ... to expand plant capacity from 17 to 29 MGD, and to obtain
28 additional access to SWP water, in order to allow San Gabriel greater

²⁴⁹ The pretreatment capabilities at the Sandhill Water Treatment Plant include: 1) the Influent Equalization Reservoir 2) systems to perform rapid mix and flocculation and 3) inclined plate settlers.

1 flexibility in managing its water supply sources both in the short and long
2 term.”²⁵⁰

3 In D.07-04-046, the Commission determined that the Sandhill upgrade was
4 needed, and cost-effective.²⁵¹ The Commission also specified in D.07-04-046 that
5 the Sandhill Water Treatment Plant’s primary function is that of a baseload unit,
6 operating as nearly as possible on a 24-hour, seven-days-per-week basis to make
7 maximum possible use of San Gabriel’s most economical source of supply.²⁵²

8 **3) Description of how water gets from Lytle Creek to the Sandhill**
9 **Water Treatment Plant**

10 As further described in the Direct Testimony of Robert J. DiPrimio, the
11 facilities used to convey surface water from Lytle Creek to the Sandhill Water
12 Treatment Plant include 1) Edison’s intake diversion structure, 2) Edison’s upper
13 penstock, 3) Edison’s power house, 4) Edison’s afterbay, and 5) San Gabriel’s
14 Sandhill Water Treatment Plant intake pipeline.²⁵³

15 **D. DISCUSSION**

16 This discussion section will follow the three key issues outlined in the
17 reasonableness review required for this General Rate Case, pursuant to
18 D.09-06-027:

²⁵⁰ D.07-04-046, excerpts from pp. 35 -37.

²⁵¹ D.07-04-046, p. 118 and D.09-06-027, p.68.

²⁵² D.07-04-046, p.38.

²⁵³ Direct Testimony of Robert J. DiPrimio, pp. 2-3.

- 1 1. Southern California Edison Company’s contractual obligation to provide
- 2 Lytle Creek water to the Sandhill Water Treatment Plant;
- 3 2. The adequacy of Southern California Edison Company’s facilities to
- 4 deliver sufficient water for the Sandhill Water Treatment Plant to operate at
- 5 its full 29 million gallon per day capacity; and
- 6 3. The capability of the Sandhill Water Treatment Plant to treat 29 MGD of
- 7 Lytle Creek water, if sufficient water is available.²⁵⁴

8 For this analysis, DRA reviewed past Commission decisions regarding the

9 Sandhill Water Treatment Plant Upgrade (D.07-04-046 and D.09-06-027), the

10 Direct Testimony of Robert J. DiPrimio (SG-5), Frank A. LoGuidice (SG-6),

11 Robert K. Young (SG-11), and C. Shem Hawes (SG-13), Lytle Creek surface

12 water flow data from the United States Geological Survey (“USGS”), San

13 Gabriel’s response to DRA’s Data Requests AR4-001 and AR4-003, email

14 correspondence with Robert J. DiPrimio, San Gabriel’s response to the City of

15 Fontana Data Request #2, and the Standard Operating Procedures and design

16 drawings for the Sandhill Water Treatment Plant.

17 **1) Southern California Edison Company’s contractual**

18 **obligation to provide Lytle Creek water to the Sandhill**

19 **Water Treatment Plant**

20 DRA reviewed the Direct Testimony of Robert J. DiPrimio and its

21 attachments including a 1924 Judgment by the Superior Court of San Bernardino

22 County regarding the use of Lytle Creek surface water. As interpreted by San

23 Gabriel and presented in the Direct Testimony of Robert J. DiPrimio, San Gabriel

24 believes it is entitled to divert up to 45 MGD (69.6 cubic feet per second or “cfs”)

²⁵⁴ D.09-06-027, p. 114, Ordering Paragraph 16.

1 of Lytle Creek surface water, when available.²⁵⁵ Edison has repeated a similar
2 finding stating that “[San Gabriel] believes their adjudicated right to Lytle Creek
3 surface water allows deliveries of up to [51 MGD] 80 cfs during certain times of
4 the year.”²⁵⁶ However, both San Gabriel and Edison agree that the maximum
5 design capacity of Edison’s facilities (specifically the penstock and power plant) is
6 60 cfs (38.8 MGD).^{257 258}

7 DRA does not make any recommendations at this time specific to the
8 contractual obligation of Edison to provide Lytle Creek surface water to San
9 Gabriel.

10 **2) The adequacy of Southern California Edison Company’s**
11 **facilities to deliver sufficient water for the Sandhill**
12 **Water Treatment Plant to operate at its full 29 million**
13 **gallon per day capacity**

14 In order for the Sandhill Water Treatment Plant to operate at its full 29
15 MGD capacity (44.9 cfs), the flowrate down Edison’s supply pipe (penstock),
16 through Edison’s Fontana Power Plant, and leaving Edison’s afterbay facility must
17 sometimes equal up to 35.7 MGD (55.3 cfs).^{259 260} Before the Sandhill Water
18 Treatment Plant Upgrade was complete, and the design capacity of the Plant was
19 17 MGD (26.3 cfs), Edison typically only needed to provide a maximum of 23.7
20 MGD (36.7 cfs) to its afterbay facility.²⁶¹ Since completion of the Sandhill Water

²⁵⁵ Direct Testimony of Robert J. DiPrimio, pp. 7.

²⁵⁶ Direct Testimony of Robert J. DiPrimio, Attachment D, p. 1.

²⁵⁷ Direct Testimony of Robert J. DiPrimio, pp. 6.

²⁵⁸ Direct Testimony of Robert J. DiPrimio, Attachment D, p. 1.

²⁵⁹ Direct Testimony of Robert J. DiPrimio, SG-5, p. 10.

²⁶⁰ The flowrate of 55.3 cfs is the combined flowrate of 44.9 cfs (29 MGD) to the Sandhill Water Treatment Plant and up to 10.4 cfs that may be delivered to others from the afterbay. (Direct Testimony of Robert J. DiPrimio, SG-5, p. 10.)

²⁶¹ Similar to the calculation above, the flowrate of 36.7 cfs is the combined flowrate of 26.3 cfs
(continued on next page)

1 Treatment Plant Upgrade, it has become clear that Edison's facilities are not
2 adequate to provide the required 35.7 MGD (55.3 cfs) to the afterbay. Edison has
3 stated that the Fontana Power Plant becomes electrically unstable at flows between
4 32.3 and 35.5 MGD (50 and 55 cfs) and the plant will only operate at a maximum
5 flowrate of 31 MGD (48 cfs) until a solution is identified.²⁶²

6 DRA used daily Lytle Creek stream flow data available from the USGS
7 website and the recorded daily flowrate diverted to Sandhill, as provided by San
8 Gabriel in its response to data request AR4-001, in order to determine when Lytle
9 Creek surface water is available, and if so, whether it is being diverted to the
10 Sandhill Water Treatment Plant. Sub-sections (a) - (c) describe the information
11 used in this analysis while Figures 15-A and 15-B show the available daily Lytle
12 Creek surface flow and the daily Lytle Creek surface water Influent to the Sandhill
13 Water Treatment Plant. In Figure 15-B, the water diverted to the Sandhill Water
14 Treatment Plant is directly imposed in front of the available surface water flowrate
15 in order to provide a visual indication of the amount of water not diverted to the
16 Sandhill Water Treatment Plant.

17 (a) USGS Stations along Lytle Creek and Edison's facilities

18 Attachment 15-1 in Appendix B of this report provides the most recent
19 USGS schematic diagram of the Santa Ana River Basin (which includes Lytle
20 Creek) and the 2010 USGS Water-Data Reports with location descriptions for the
21 gauging stations discussed in this report and listed here:

- 22 • 11062700 – Fontana Powerplant Tailrace Weir near Fontana, CA

(continued from previous page)

(17 MGD) to the Sandhill Water Treatment Plant and 10.4 cfs that can be delivered to others from the afterbay.

²⁶² Direct Testimony of Robert J. DiPrimio, SG-5, Attachment D, pp.1-2.

- 1 • 11062000 – Lytle Creek near Fontana, CA
- 2 • 11062402 – Lytle Creek Surface Diversion near Fontana, CA
- 3 • 11062450 – Fontana Powerplant Forebay Spillway near Fontana, CA

4 On the USGS schematic diagram, in Attachment 15-1, these stations are
5 shown as “627,” “620,” “624.02,” and “624.50,” respectively.

6 In lieu of a USGS station located upstream far enough to measure the total
7 available flow in Lytle Creek, DRA has calculated the total available Lytle Creek
8 surface water by taking the daily flowrate recorded at the Fontana Powerplant
9 (11062700), adding the flowrate recorded at Lytle Creek (11062000), subtracting
10 the flowrate recorded at the Lytle Creek Surface Diversion (11062402), and
11 adding the flowrate recorded at the Fontana Powerplant Forebay Spillway
12 (11062450). A Graph of this USGS data, from January 1, 2009 through August of
13 2011, is shown in Figures 15-A and 15-B.

14 San Gabriel referenced the flowrate recorded by USGS station 11062000 –
15 Lytle Creek near Fontana, CA during the Phase 2 evidentiary hearings, and in its
16 Phase 2 reply briefs of the last General Rate Case, as an indicator of surface water
17 available for the Sandhill Water Treatment Plant in addition to that going through
18 Edison’s facilities and recorded at the Fontana Powerhouse with USGS station
19 11062700 – Fontana Powerplant Tailrace Weir near Fontana, CA.^{263, 264} Excerpts
20 of the Phase 2 evidentiary hearings and San Gabriel’s Phase 2 reply brief are
21 provided in Attachment 15-2 in Appendix B of this Report.

²⁶³ Transcript, February 3, 2009 – 9:00 AM, for application A.08-07-009. pp. 832-837.

²⁶⁴ Phase 2 Reply Brief of San Gabriel Valley Water Company, for application A.08-07-009, filed March 18, 2009, p. 25-26.

1 (b) Flow to the Afterbay is limited to 31 MGD (48 cfs) which, with 6.7
2 MGD (10.4 cfs) required for others, leaves only 24.3 MGD (37.6
3 cfs) available for the Sandhill Water Treatment Plant

4 In Ordering Paragraph 18 of D.09-06-027, the Commission required San
5 Gabriel to:

6 “...make a reasonable effort to ***obtain Southern California Edison***
7 ***Company’s input*** regarding the adequacy of Southern California Edison
8 Company’s facilities to provide sufficient water to the afterbay for the
9 Sandhill Water Treatment Plant, when sufficient Lytle Creek water is
10 available, and make this information available to other parties in San
11 Gabriel Valley Water Company’s next GRC.”²⁶⁵

12 San Gabriel did obtain input from Edison regarding the adequacy of
13 Edison’s facilities and has made this information available as Attachment D to
14 SG-5, the Direct Testimony of Robert J. DiPrimio. In reviewing this information,
15 DRA notes that the earliest correspondence provided between San Gabriel and
16 Edison in this attachment is a summary of a meeting held on April 11, 2011. The
17 decision and Ordering Paragraph requiring San Gabriel to obtain information from
18 Edison was finalized in June of 2009, however this meeting was held almost two
19 years later in April 2011, and only three months before the filing due date for this
20 General Rate Case application in July 2011. DRA is concerned by the level of
21 effort by San Gabriel to resolve this issue regarding the adequacy of Edison’s
22 facilities.

23 Nevertheless, in that April 11, 2011 meeting between Edison
24 representatives and San Gabriel, Edison representative Mr. Walter Pagel stated
25 that during high flows in Lytle Creek, the turbidity increases beyond the power
26 plant’s ability to use the water.²⁶⁶ Specifically, Mr. Pagel stated:

²⁶⁵ D.09-06-027, p. 115, Ordering Paragraph 18.

²⁶⁶ Direct Testimony of Robert J. DiPrimio, SG-5, Attachment D, p.1.

1 “Sand and debris in the water cause damage to SCE’s equipment. The
2 supply pipe/penstock is over 22,000 feet long and over 90 years old. The
3 pipe’s age, and its shallow depth under the ground level, suggest that its
4 integrity could be compromised, which can affect the maximum flow.”²⁶⁷

5 Further, Mr. Pagel stated that, “water appears to be backing up from the
6 Fontana Hydro Electric Plant’s afterbay into SCE’s power plant turbines,
7 preventing the maximum flow of water.”²⁶⁸ Photos taken by DRA during its
8 August 10, 2011 site visit to Edison’s afterbay facility may confirm this
9 experience described by Mr. Pagel. The instantaneous flowrate during the site
10 visit was presumably greater than 48 cfs, in order to provide 30 MGD to the
11 Sandhill Water Treatment Plant, and water was seen splashing out of an access
12 cover located between Edison’s Power House and its afterbay.²⁶⁹ Two photos of
13 Edison’s Power House and afterbay, taken during DRA’s August 10, 2011 site
14 visit, are provided in Attachment 15-3 in Appendix B of this report. DRA also
15 noticed from San Gabriel’s response to data request AR4-001, Question 7 that
16 Edison shut down one of the turbines at its Power House on August 11, 2011 (the
17 day after DRA’s site visit) due to bad bearings.

18 In recognition of these flow constraints, Edison concluded that “until a
19 solution is identified, the plant will operate at [31 MGD] 48 cfs.”²⁷⁰ Clearly, this
20 proves that while Edison is operating the Fontana Power House and its afterbay at
21 a flowrate of 31 MGD (48 cfs), there is insufficient Lytle Creek surface water
22 available for the Sandhill Water Treatment Plant to operate at its full 29 MGD

²⁶⁷ Direct Testimony of Robert J. DiPrimio, SG-5, Attachment D, p.1.

²⁶⁸ Direct Testimony of Robert J. DiPrimio, SG-5, Attachment D, p.1.

²⁶⁹ During the site visit, San Gabriel representatives verbalized that the instantaneous flowrate from the afterbay to the Sandhill Water Treatment Plant was approximately 30 MGD. DRA later determined from San Gabriel’s response to data request AR4-001 that the daily recorded flowrate from the afterbay to the Sandhill Water Treatment Plant on August 10, 2011 was 26.2 MGD.

²⁷⁰ Direct Testimony of Robert J. DiPrimio, SG-5, Attachment D, p.1.

1 (44.9 cfs) capacity. Instead, because of a maximum of 31 MGD (48 cfs), with 6.7
2 MGD (10.4 cfs) required for others, only 24.3 MGD (37.6 cfs) is available to be
3 diverted to the Sandhill Water Treatment Plant. Even though San Gabriel and
4 Edison are reportedly working to restore the full capacity of Edison's Power
5 House and supply pipe/penstock facilities, there is no indication of when a
6 solution may be determined, when it may be put in place, and further, an alternate
7 flowrate restriction may still be necessary simply due to the high turbidity water
8 that is common during high flow storm events in Lytle Creek.

9 Figure 15-A provides a graph of the daily available Lytle Creek Surface
10 Water with light grey circle hash marks that create a line to show when there is
11 enough water available, 35.7 MGD (55.3 cfs), to ultimately provide the design
12 flowrate of 29 MGD (44.9 cfs) to the Sandhill Water Treatment Plant. The black
13 circle hash marks create a line to show when the available flow is limited by the
14 stunted adequacy of Edison's facilities to only provide 31 MGD (48 cfs) of Lytle
15 Creek surface water to its afterbay and a maximum 24.3 MGD (37.6 cfs) to the
16 Sandhill Water Treatment Plant.

DAILY RECORDED AVAILABLE SURFACE WATER:

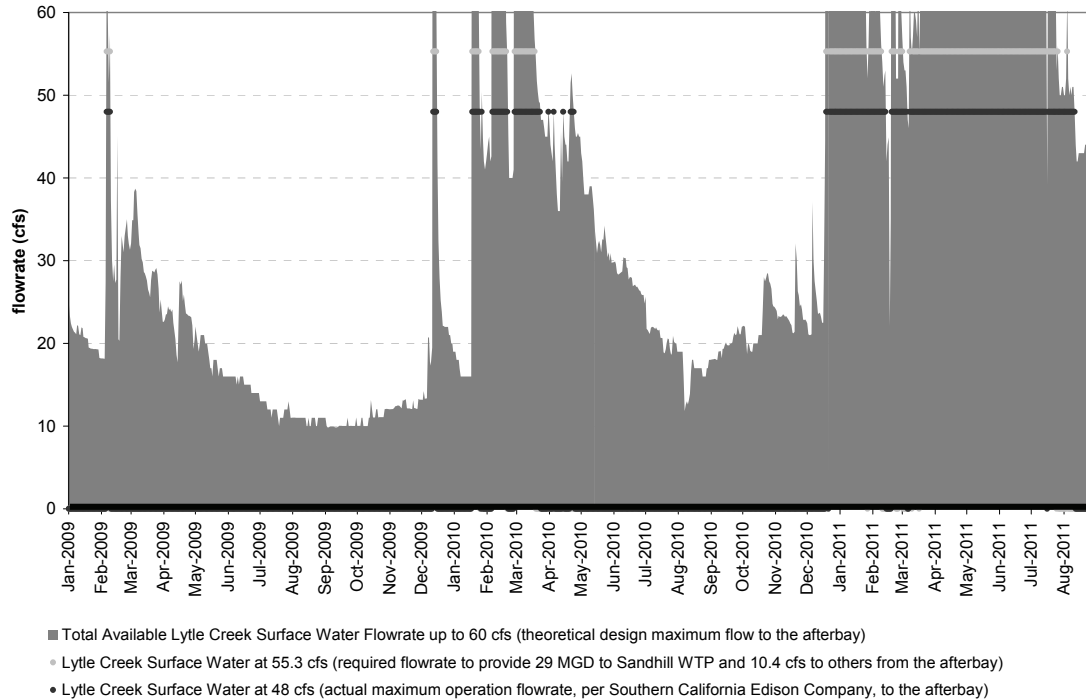


FIGURE 15-A – Daily Recorded Available Surface Water from Lytle Creek (Computed from USGS data as described above)

As shown in Figure 15-A, limited water was available in Lytle Creek in 2009 and 2010, but ample water was available in the first eight months of 2011.

(c) Available surface water in Lytle Creek vs. the recorded flowrate of water from Lytle Creek to the Sandhill Water Treatment Plant from Edison’s Afterbay.

The next figure, Figure 15-B, is similar to Figure 15-A, with the total available Lytle Creek Surface Flowrate based on USGS data shown in grey, but additionally shows the recorded flow to the Afterbay in white and recorded flow diverted to Sandhill shown in light blue.

DAILY RECORDED FLOWRATE:

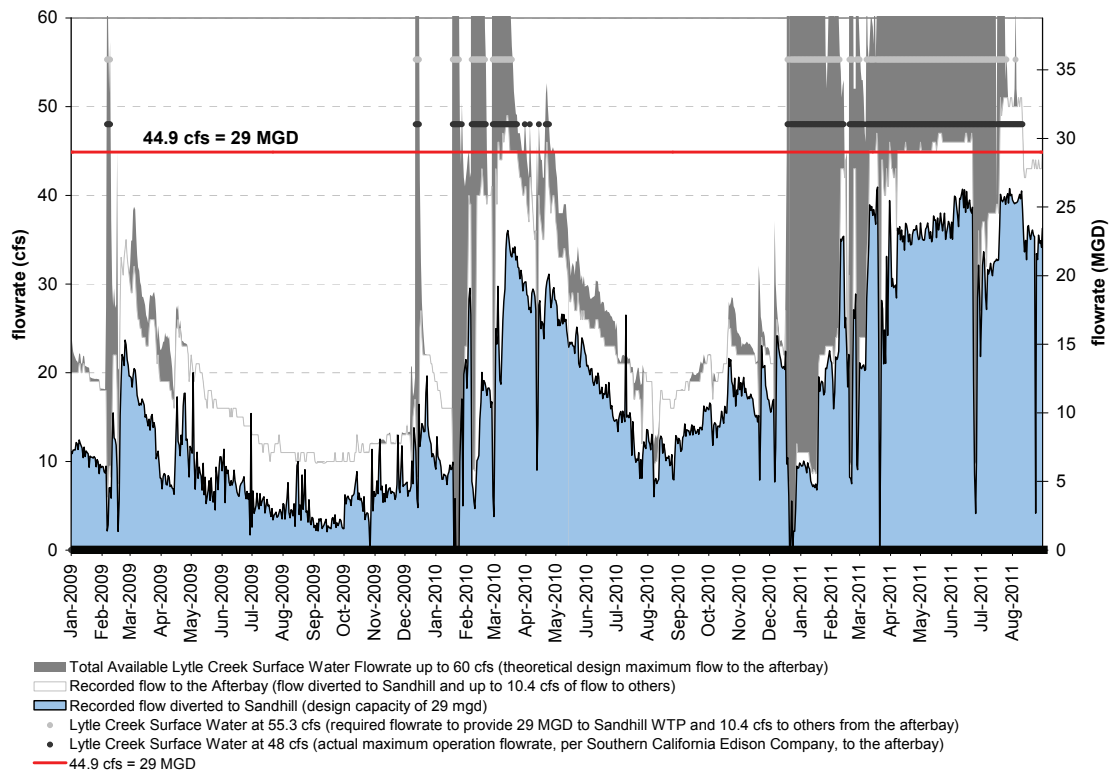


FIGURE 15-B – Daily Recorded Available Lytle Creek Surface Water and the Daily Recorded Flow Diverted to the Sandhill Water Treatment Plant²⁷¹

As shown in Figure 15-B, substantial amounts of available surface water have not been diverted to the Sandhill Water Treatment Plant due to the inadequacy of Edison’s facilities to provide 35.7 MGD (55.3 cfs) through its afterbay. DRA estimates this amount of water to total 1,558 acre-feet in 2009, 5,310 acre-feet in 2010, and 7,757 acre-feet in the first eight months of 2011.

Attachment 15-5 in Appendix B of this Report (San Gabriel’s Attachment 7 contained in its response to DRA’s data request AR4-001) is San Gabriel’s “Explanations for Reduced Lytle Creek Flow to the Sandhill Water Treatment Plant.” This explanation includes, “heavy rain storms causing the soft plug at F-27 pond to erode away,” “high turbidity levels during a storm event,” “the Fontana

²⁷¹ A full page version this figure is provided in Attachment 15-4 in Appendix B of this report.

1 system being full,” “a dump at the F-11 [afterbay] dump valve,” Edison “shut
2 down the lower powerhouse to prohibit dirty water from entering the lower
3 penstock,” “major malfunctions with both turbines” and Edison “shut down one of
4 the turbines at the lower powerhouse due to bad bearings.”²⁷²

5 DRA’ recommends the Commission find that Southern California Edison
6 Company’s facilities are *inadequate* to deliver sufficient water for the Sandhill
7 Water Treatment Plant to operate at its full 29 million gallon per day capacity and
8 that the Sandhill Water Treatment Plant Upgrade was oversized as built.

9 **3) The capability of the Sandhill Water Treatment Plant to**
10 **treat 29 MGD of Lytle Creek water, if sufficient water is**
11 **available**

12 Civiltec Engineering, Inc prepared for San Gabriel a Sandhill Water
13 Treatment Plant hydraulic assessment, which was completed in April 2011. This
14 hydraulic assessment is contained in the Direct Testimony of C. Shem Hawes,
15 SG-13. The findings of this hydraulic assessment include that the Normal
16 Operating Capacity of the Sandhill Water Treatment Plant is 30.03 MGD. DRA
17 raises two concerns with this finding: 1) the conditions within the Normal
18 Operating Conditions presented in this hydraulic assessment are not consistent
19 with that in the Standard Operating Procedures and the design drawings for the
20 Sandhill Water Treatment Plant (specifically the hydraulic assessment finds that,
21 in order to attain a flowrate of 30.03 MGD, the Influent Equalization Reservoir
22 must be bypassed,) and 2) the capacity described in the hydraulic assessment is an
23 instantaneous capacity that does not represent the daily flow capacity of the
24 Sandhill Water Treatment Plant. Sub-sections (a) and (b) explain these two
25 concerns while sub-section (c) presents DRA’s findings that, although its upgrade

²⁷² San Gabriel’s response to DRA data request AR4-001, Attachment 7.

1 construction was completed in December 2008, the Sandhill Water Treatment
2 Plant has never had a daily recorded flowrate of 29 MGD.

3 (a) Normal Operating Conditions

4 The Normal Operating Conditions presented in the hydraulic assessment by
5 Civiltec Engineering, Inc. (SG-13, Hawes) is inconsistent with that of the Sandhill
6 Water Treatment Plant Standard Operating Procedures and design drawings.²⁷³

7 The Civiltec Engineering, Inc. hydraulic assessment recommends bypassing the
8 Influent Equalization Reservoir in order to achieve a flowrate of 29 MGD.²⁷⁴

9 This hydraulic assessment further recommends that if the Influent Equalization
10 Reservoir is utilized, that it is maintained at one foot (1,576 HGL²⁷⁵) or less in
11 order to optimize the possible flow, which the maximum is estimated as
12 28.26 MGD.²⁷⁶

13 The design drawings, specifically the General Hydraulic Profile drawing
14 G-007, for the Sandhill Water Treatment Plant show an operating range of six feet
15 in the Influent Equalization Reservoir and the Normal Operating Conditions as
16 utilizing the Influent Equalization Reservoir and maintaining a five foot
17 (1,580 HGL) water surface. The flowrate is shown in the General Hydraulic
18 Profile as 30 MGD under the conditions utilizing the Influent Equalization
19 Reservoir with a five foot water surface (1,580 HGL). In contrast, San Gabriel has

²⁷³ The Standard Operating Procedures (SOP) for the Sandhill Water Treatment Plant are in San Gabriel's Supplemental Data Response 8 as Attachment 8 section 1. The design drawings were provided in response to Question 1 of DRA's data request AR4-001. (Sheet G-007 is the General Hydraulic Profile.)

²⁷⁴ SG-13, Attachment 2, pp. 3-1 to 3-6.

²⁷⁵ "HGL" is the "Hydraulic Grade Line." For the water in the Influent Equalization Reservoir, which is at atmospheric pressure, the HGL is the water surface level presented as the elevation in feet above sea level.

²⁷⁶ SG-13, Attachment 2, p. 3-5.

1 reported that, based on the hydraulic model described in SG-13, “the maximum
2 flow rate under “Conditions Utilizing the Influent Equalization Reservoir” while
3 maintaining a five foot water surface and an HGL of 1580.00 feet in the Influent
4 Equalization Reservoir is 21.07 MGD.”²⁷⁷

5 This shows that although the design of the Sandhill Water Treatment Plant
6 was to handle 30 MGD using the Influent Equalization Reservoir with a
7 1,580 HGL water surface, in reality, the Sandhill Water Treatment Plant is only
8 able to receive 21.07 MGD under those conditions. Therefore, in order for the
9 Sandhill Water Treatment Plant to treat 29 MGD of Lytle Creek water, the normal
10 design conditions must be altered by bypassing the Influent Equalization
11 Reservoir.

12 Altering the normal operating conditions by bypassing the Influent
13 Equalization Reservoir is not an action that is without consequence. The
14 Equalization Reservoir was designed, in part, to equalize fluctuating flows from
15 Lytle Creek.²⁷⁸ Without it, Fontana Water Company is completely dependent on
16 the flow control by Edison at its supply pipe, power plant, and afterbay.

17 A comparison of the Civiltec Engineering Inc. hydraulic assessment
18 (SG-13) hydraulic profile figures and the Sandhill Water Treatment Plant design
19 drawings hydraulic profile, from Black & Veatch Corp., is provided in Attachment
20 15-6 in Appendix B of this report.

²⁷⁷ San Gabriel’s response to DRA Data Request AR4-001, Question 3.

²⁷⁸ Sandhill Water Treatment Plant Standard Operating Procedures, Page 8 of 22 (SOP-C, WTP Description). Provided by San Gabriel as Supplemental Data Request Attachment 8, Section 1, p. 29.

1 (b) Instantaneous Flowrate vs. Daily Recorded Flow

2 The purpose of the hydraulic assessment, performed by Civiltec
3 Engineering, Inc. and provided in SG-13, Direct Testimony of C. Shem Hawes,
4 was to determine whether the Sandhill Water Treatment Plant “provides sufficient
5 capacity to treat Lytle Creek flow at a rate of 29 MGD.”²⁷⁹ To do this, Civiltec
6 Engineering, Inc. constructed a computer model to simulate flow through the
7 Sandhill Water Treatment Plant.²⁸⁰ “The Model was calibrated against the
8 readings taken at 11:30 AM on March 12, 2010 at which time the instantaneous
9 flow from the Southern California Edison Afterbay (Afterbay) through the
10 Sandhill Plant was measured at 20,993 gpm or the equivalent of 30.2 MGD.”²⁸¹
11 This instantaneous flowrate of 30.2 MGD on March 12 at 11:30 AM is
12 misleading. The total daily recorded flowrate, which is the average of all the
13 instantaneous flowrate measurements taken each day, for March 12, 2010 was
14 21.91 MGD.²⁸² In fact, the instantaneous reading taken fifteen minutes after the
15 one used to calibrate the model, at 11:45 AM on March 12, was 20.96 MGD, and
16 the instantaneous reading taken fifteen minutes after that at 12:00 AM on March
17 12 was only 16.62 MGD. Further, as shown in Figures 15-C and 15-D, the
18 instantaneous flowrate at 11:30 AM on March 12, 2010 in no way represents the
19 flowrate on March 12, 2010 or any other time during the entire duration of the
20 hydraulic assessment conducted at the Sandhill Water Treatment Plant from
21 March 5th through March 30th, 2010.

²⁷⁹ Direct Testimony of C. Shem Hawes, SG-13, p. ES-1.

²⁸⁰ Direct Testimony of C. Shem Hawes, SG-13, p. 2-26.

²⁸¹ Direct Testimony of C. Shem Hawes, SG-13, p. ES-1.

²⁸² San Gabriel’s response to Data Request AR4-001, Attachment page 24. Also referenced as page 8 of 16 of Attachment 63 to San Gabriel’s response to the City of Fontana’s Data Request #2.

Figure 15-C shows that for the majority of the time, Sandhill's Influent flowrate was not only less than 29 MGD, but it was below 25 MGD. Further, the only occurrences when the instantaneous flowrate is greater than 25 MGD are on March 9th, 11th, and 12th, and each are for less than 2 hours in duration.²⁸³

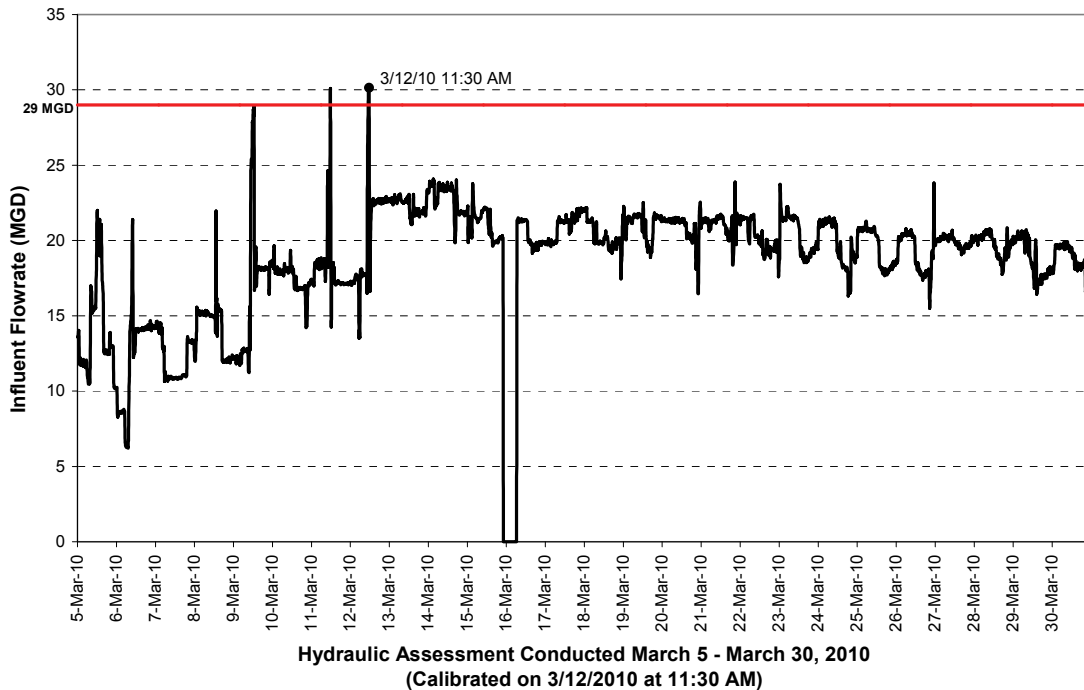


FIGURE 15-C – Instantaneous Influent Flowrate to the Sandhill Water Treatment Plant (15 minute intervals)²⁸⁴

This same instantaneous influent flowrate data, shown for March 12, 2010 only in Figure 15-D, emphasizes the short half-an-hour time period from 11:00 to 11:30 AM when the flowrate was above 29 MGD.

²⁸³ Specifically, on March 9, 2010 from 11:00 to 12:45, on March 11, 2010 from 11:30 to 11:45, and March 12, 2010 from 10:30 to 11:30.

²⁸⁴ Instrumentation Data provided by San Gabriel in its response to DRA Data Request AR4-001, Question 4, and follow-up emails sent from Christine Sluss to Amanda Rasmussen at 4:50 PM on 10/12/2011 and 11:43 AM on 10/18/2011.

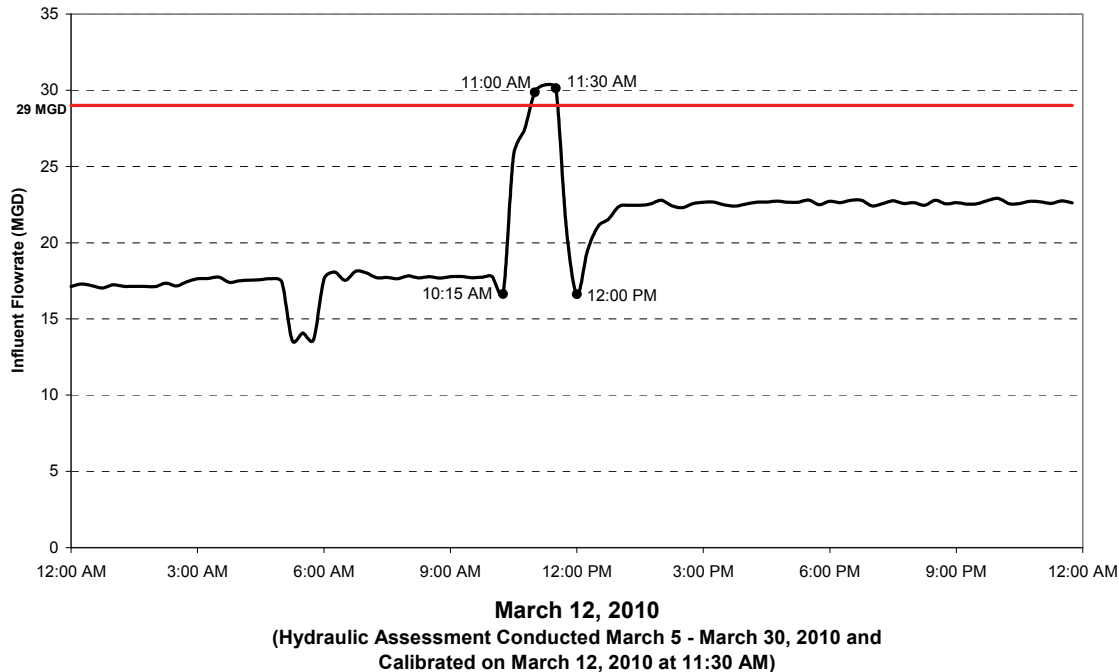


FIGURE 15-D – Instantaneous Influent Flowrate to the Sandhill Water Treatment Plant, March 12, 2010 Only (15 minute intervals)

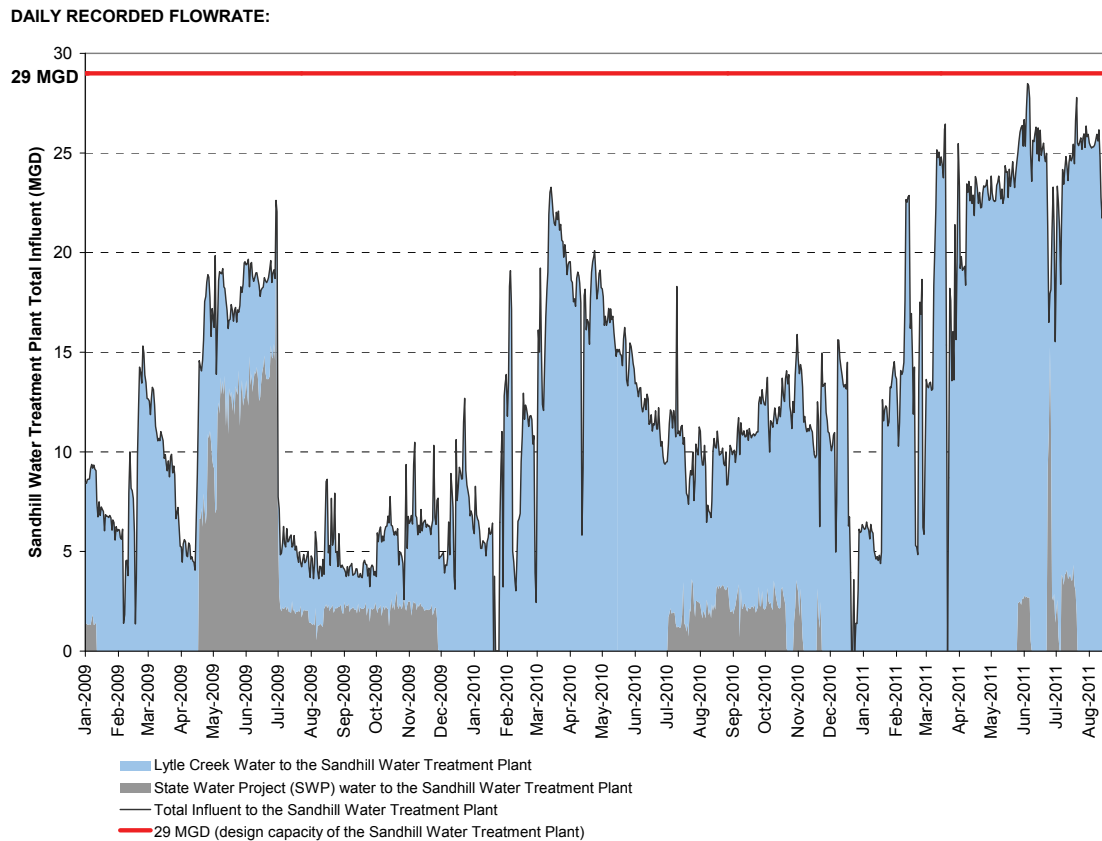
DRA finds that the hydraulic assessment conducted by Civiltec Engineering, Inc. presents estimates of the *daily* operating capacity based on a model that was calibrated using data from an un-sustained flowrate of approximately 30 MGD over *30 minutes*. DRA recommends that the Commission not rely on the hydraulic assessment data provided by Civiltec Engineering, Inc. to determine the maximum daily operating capacity of the Sandhill Water Treatment Plant as it is proven to not be based on daily operating flow conditions.

(c) The Sandhill Water Treatment Plant has never had a daily recorded flowrate of 29 MGD.

DRA has created the graph in Figure 15-E, using data provided by San Gabriel, to present the total influent to the Sandhill Water Treatment Plant.²⁸⁵

²⁸⁵ This graph was created using data provided by San Gabriel in its response to DRA's data request AR4-001, Question 6.

1 This graph shows the portion of the influent that is from Lytle Creek and the
 2 portion that is from the State Water Project sources. As specified in D.07-04-046,
 3 the Sandhill Water Treatment Plant’s primary function is to be a “baseload unit,
 4 operating as nearly as possible on a 24-hour, seven-days-per-week basis to make
 5 maximum possible use of San Gabriel’s most economical source of supply.”²⁸⁶



6
 7 **FIGURE 15-E – Sandhill Water Treatment Plant Influent (Both from Lytle**
 8 **Creek surface water and Purchases Water from State Water Project sources)**

9 From Figure 15-E, and using the data provided by San Gabriel, it is clear
 10 that the Sandhill Water Treatment Plant with both Lytle Creek surface water and
 11 State Water Project sources is not acting as a baseload unit, has never had a daily

²⁸⁶ D.07-04-046, p.38.

1 recorded flowrate of 29 MGD, and has not made maximum possible use of its
2 most economical source of supply.

3 E. CONCLUSION

4 DRA recommends the Commission find that the Sandhill Water Treatment
5 Plant is only capable of treating 29 MGD of Lytle Creek water if: 1) sufficient
6 water is available; 2) Southern California Edison Company's facilities are made
7 adequate to provide enough water to its afterbay; and 3) the normal operating
8 conditions are altered so that the Influent Equalization Reservoir is bypassed.
9 DRA also recommends the Commission find that the Sandhill Water Treatment
10 Plant has never treated a daily flowrate of 29 MGD.

11 Due to the inadequacy of Southern California Edison Company's facilities
12 to deliver sufficient water for the Sandhill Water Treatment Plant to operate at its
13 full 29 MGD capacity, and the unstable and conditional capability of the Sandhill
14 Water Treatment Plant to treat 29 MGD of Lytle Creek water, DRA finds that only
15 24.3 MGD of the 29 MGD rated capacity of the Sandhill Water Treatment Plant is
16 currently used and useful. Because the Sandhill Water Treatment Plant Upgrade
17 was meant to provide an increase in capacity from 17 MGD to 29 MGD, and 24.3
18 MGD is now in use, ***only 61% of the Upgrade has been used and useful.***

19 DRA recommends a 39% capacity adjustment to the portion of ratebase in
20 the Test Year associated with the Sandhill Water Treatment Plant Upgrade. This
21 adjustment should be effective until San Gabriel meets its burden of proof and can
22 show that the full 29 MGD capacity of the Sandhill Water Treatment Plant is used
23 and useful consistently.

24 DRA further recommends that the Commission require, pursuant to
25 Ordering Paragraph 16 of D.09-06-027, that San Gabriel refund to ratepayers 39%

1 of the capital costs, with interest, associated with the Sandhill Water Treatment
2 Plant Upgrade that were collected in rates or offset with facilities fees.

3 **F. PLANT AND RATEBASE ADJUSTMENTS**

4 To estimate the reduction to plant-in-service and ratebase, and to calculate
5 the refund with interest due to ratepayers, DRA requested San Gabriel provide the
6 annual revenue amount that is subject to refund and the revenue requirement
7 amount for the Test Year corresponding to an example \$1,000,000 reduction to
8 plant-in-service. San Gabriel did not provide this information and explained that
9 these requests are “extremely complex,” “the capital costs of Sandhill are recorded
10 in multiple accounts, and the reduction to future revenue requirement of a
11 disallowance depends on the specific component(s) that are disallowed.”²⁸⁷

12 In lieu of receiving this information from San Gabriel, DRA prepared its
13 own simplified calculation based on an estimated revenue requirement associated
14 with a 39% reduction to plant-in-service of the Sandhill Water Treatment Plant.²⁸⁸
15 This estimate is intended to show the importance of this issue and is therefore only
16 provided as an example until a future calculation of the actual amounts associated
17 with a 39% capacity adjustment is offered by San Gabriel.

18 DRA estimates that the reduction to plant-in-service is approximately \$15.7
19 million in the Test Year 2012-2013, with an associated reduction of \$13.2 million
20 to ratebase, and that the total refund due to ratepayers is \$11.5 million.

²⁸⁷ San Gabriel’s response to DRA Data Request AR4-003.

²⁸⁸ DRA consulted D.07-04-046, D.09-06-027, and San Gabriel’s Advice Letter filings 358 and 368.

1 **CHAPTER 16: SLEMMER SETTLEMENT AND**
2 **OFFICE COMPLEX**

3 **A. SLEMMER SETTLEMENT - INTRODUCTION**

4 On February 14, 2002, Dr. Thomas Slemmer and several other persons filed
5 the Slemmer suit (“Slemmer”) in San Bernardino Superior Court (“Court”) against
6 the San Gabriel Valley Water Company (“San Gabriel”) and other defendants.
7 The plaintiffs claimed treble damages in the range of tens of millions of dollars.
8 The suit alleged the plaintiffs’ rights as minority shareholders in Fontana Union
9 Water Company (“Fontana Union”) had been violated by the defendants who
10 together owned a majority of the Fontana Union shares. The parties entered into a
11 settlement (“Slemmer settlement”) that was approved by the Court on July 24,
12 2006.

13 As part of the Slemmer settlement, the Slemmer suit was dropped, San
14 Gabriel paid \$4,200,000 to the plaintiffs, and San Gabriel was awarded 179.2
15 shares of Fontana Union stock. As of December 2010, San Gabriel owns
16 approximately 40% of the Fontana Union shares.²⁸⁹

17 San Gabriel requested in its 2008 general rate case (Application 08-07-009)
18 that the Slemmer settlement of \$4,200,000 be included in ratebase. As part of the
19 settlement agreement in that rate case, DRA agreed to the utility’s request for
20 “inclusion of the entire \$4,200,000 Slemmer settlement payment in ratebase.”²⁹⁰

21 In the 2009 decision (D.09-06-027), however, the Commission allowed
22 \$1,585,920 of the requested \$4,200,000 in ratebase. Notwithstanding this

²⁸⁹ Direct Testimony of Michael Whitehead, page 23.

²⁹⁰ D.09-06-027, mimeo page 11.

1 allowance, the Commission found the utility's request to revisit this issue as
2 "reasonable and granted"²⁹¹ for its next general rate case.

3 According to D.09-06-27, Ordering Paragraph 6 states, "San Gabriel Valley
4 Water Company may revisit the issue of the ratemaking treatment of the
5 settlement costs of the Slemmer law suit (\$4,200,000), discussed in Section 8 of
6 this decision, in its next general rate case. If it chooses to revisit this issue in its
7 next general rate case, it shall explain in its exhibits why any information in those
8 exhibits that was not included in the record in this proceeding regarding this issue
9 could not have been provided in this proceeding."²⁹²

10 **B. SLEMMER SETTLEMENT - SUMMARY OF RECOMMENDATIONS**

11 DRA believes Fontana has not submitted any evidence in the instant
12 proceeding that would persuade the Commission to change its accounting of the
13 benefits the ratepayer received as a result of Slemmer settlement. The current
14 Slemmer settlement funds in ratebase, \$1,585,920, should continue to be recorded in
15 ratebase for ratemaking purposes.

16 Therefore, DRA recommends the Commission reject Fontana's request to
17 place an additional \$2,614,080 in ratebase, the difference between the funds
18 currently in ratebase and the total amount (\$4,200,000) Fontana chose to pay in
19 order to settle the Slemmer lawsuit.

20 In addition to rejecting the requested \$2,614,080 in ratebase, the Commission
21 must also reaffirm that the Slemmer suit, and the Slemmer settlement is a one-time
22 non-recurring expense. This means that similar types of suits are not likely to recur
23 on a regular basis. Thus, expenses for the suit should again be excluded from its
24 five-year legal expenses average. This amounts to a reduction of \$202,300 in 2007
25 dollars.

²⁹¹ Ibid, p. 15.

²⁹² D.09-06-027, mimeo, page 110.

1 **C. SLEMMER SETTLEMENT - DISCUSSION**

2 **1) Requirements of D.09-06-027**

3 According to the Commission’s Ordering Paragraph 6 in D.09-06-027,
4 Fontana must, in the instant proceeding, identify the inclusion of information not
5 found in the last proceeding and explain why that information could not have been
6 provided by the company in the last proceeding.

7 **2) Rationale in D.09-06-027 for funds allowed into ratebase**

8 As stated in D.09-06-027, “The purpose of the \$4,200,000 Slemmer
9 settlement amount was to settle the Slemmer suit. It was not an arms length
10 purchase of Fontana Union Water Company shares. Thus, the Slemmer settlement
11 costs are not necessarily indicative of the value of the 179.2 shares acquired or the
12 value of removal of the plaintiffs’ claim regarding the 358.6 shares previously
13 acquired.”²⁹³

14 The Commission determined that the question to be answered in D.09-06-027
15 was “whether any of the \$4,200,000 should be recovered from ratepayers by being
16 included in ratebase, as proposed by [San Gabriel-Fontana] and the settlement.”²⁹⁴

17 As part of the Slemmer settlement, San Gabriel-Fontana “paid \$4,200,000
18 to the plaintiffs and [San Gabriel-Fontana] received 179.2 shares of [Fontana
19 Union] stock.”²⁹⁵ Therefore, the additional 179.2 shares of Fontana Union stock
20 acquired as a result of the Slemmer settlement had value as water rights to the San
21 Gabriel-Fontana ratepayers.

22 In D.09-06-027, the Commission determined the value added by the
23 addition of the 179.2 shares of Fontana Union stock. That determination was then

²⁹³ Ibid, page 12.

²⁹⁴ Ibid, pages 12-13.

²⁹⁵ Ibid, page 12.

1 allocated as a cost to the ratepayers by inclusion of that amount, \$1,598,920, in
2 ratebase. The Commission's reasons for allowing this amount are shown below.

3 In D.09-06-027, the Commission proceeded to place a value on the 179.2
4 shares of Fontana Union stock that San Gabriel purchased as part of the
5 settlement. To address that value, the Commission first determined if there was a
6 chance of a reduction in San Gabriel's access to Fontana Union water rights. In
7 fact, with the company's acquisition of the additional 179.2 Fontana Union shares
8 as a result of the settlement, the possibility of such a reduction was eliminated,
9 "however remote it may have been."²⁹⁶

10 The Commission also stated that the record, at that time, indicated that
11 "water rights have a value of \$3,540-\$5,534 per acre foot. Since the risk to
12 ratepayers of [San Gabriel-Fontana] losing access to [Fontana Union] water rights
13 does not appear to be very high, the acquired water rights will be valued at \$3,540
14 per acre foot. This translates to a stock value of \$8,850, or \$1,585,920 for the
15 179.2 shares."²⁹⁷

16 The Commission determined the cost to ratepayers should be 179.2 shares
17 valued at \$1,585,920. This is the amount currently in ratebase.

18 The Commission further determined that 179.2 shares, not San Gabriel's
19 request of 537.8 shares, was relevant to the Slemmer suit, and therefore was the
20 amount allowed into ratebase.

21 San Gabriel argues the "correct analysis of the costs per share is
22 \$4,200,000, plus \$686,350 paid for shares previously acquired, divided by 537.8
23 shares (179.2 shares plus 358.6 shares previously acquired). This equates to
24 \$9,086 per share."²⁹⁸

²⁹⁶ Ibid, page 14.

²⁹⁷ Ibid.

²⁹⁸ Ibid. page 12.

1 **3) Fontana’s request in the instant proceeding**

2 San Gabriel claims the proper number of shares is 537.8 since there were
3 179.2 shares purchased in the Slemmer suit plus another 358.6 shares previously
4 acquired. According to San Gabriel, it paid a combined total of \$4,886,350 for
5 those 537.8 shares which equates to \$9,086 per share. This is the price San Gabriel
6 is requesting be placed into ratebase in the instant proceeding.

7 In its current Application, Fontana states that “[i]n the previous general rate
8 case decision in Section 8 ‘Ratemaking Treatment of Investments in Shares of
9 Fontana Union Water Company’ (D.09-06-027, pp. 11-15) the Commission
10 discussed why it did not allow more than \$1,585,920 of San Gabriel’s cost to
11 purchase 537.8 shares of Fontana Union.”²⁹⁹ However, DRA notes that San
12 Gabriel-Fontana’s use of “537.8” is not supported by the facts in D.09-06-027.

13 The Commission determined in D.09-06-027, that the number of stock shares
14 relevant to ratepayers in the Slemmer settlement is 179.2, valued at \$8,850 per
15 share, or \$1,585,920. The company argued in the last proceeding, and also in the
16 instant proceeding, that the number of Fontana Union shares valued as a cost to the
17 ratepayer for the Slemmer settlement is 537.8 at \$9,086 per share or \$4,886,451.

18 San Gabriel is attempting in the instant proceeding to change the number of
19 shares associated with the Slemmer settlement by including shares the Commission
20 has already determined were not relevant to ratepayers in that settlement.

21 **4) Instant proceeding in relation to D.09-06-027 requirements**

22 The direct testimony of Michael Whitehead in the instant proceeding
23 addresses the Slemmer lawsuit issue.

24 Mr. Whitehead’s testimony fails to address the requirements of D.09-06-027.
25 According to D.09-06-027, Ordering Paragraph 6, if San Gabriel chooses to revisit
26 the ratemaking issue of the Slemmer suit, San Gabriel is required in the instant

²⁹⁹ Direct Testimony of Michael Whitehead, page 24.

1 proceeding to “explain in its exhibits why any information in those exhibits that was
2 not included in the record in [the last general rate case] proceeding regarding this
3 issue could not have been provided in [the last general rate case].”³⁰⁰

4 Mr. Whitehead’s direct testimony, instead, provides the utility’s history of
5 involvement with the Fontana Union, including additional data not shown in the last
6 proceeding that concerns the share price of Fontana Union in 2010. Mr. Whitehead
7 gives no explanation, per the requirements of Ordering Paragraph 6, D.09-06-027,
8 as to why the new information is relevant and should be given weight in
9 determining the value of the share price to be included in rate base.

10 However, as shown below, San Gabriel’s rationale for allowing more
11 Slemmer settlement funds into ratebase is not justified.

12 DRA analyzes each section discussed by Mr. Whitehead’s direct testimony
13 below.

14 **5) Analysis of Fontana Testimony in A.11-07-005**

15 Mr. Whitehead’s direct testimony begins by defining what constitutes
16 Fontana Union. Mr. Whitehead’s direct testimony explains how the Commission
17 historically viewed San Gabriel-Fontana’s ownership of Fontana Union stock and
18 how those shares of stock were treated for rate-making purposes.

19 DRA believes the reason for including this history is to suggest that the
20 Commission must continue its “longstanding policy of recognizing San Gabriel’s
21 recorded, original cost of the Fontana Union stock in rate base.”³⁰¹

³⁰⁰ D.09-06-027, mimeo page 110.

³⁰¹ Ibid.

1 Mr. Whitehead's direct testimony continues with a description of the
2 sources of water and water rights associated with Fontana Union, followed by a
3 description explaining how San Gabriel became the second largest Fontana Union
4 stockholder, and outlines the March 1992 U.S. Bankruptcy Court decision. Mr.
5 Whitehead does not suggest that this section has any impact on the Fontana's
6 request for the Commission to revisit the Slemmer settlement issue, but rather
7 explains how as a "result of implementing the U.S. Bankruptcy Court's confirmed
8 Plan of Reorganization, San Gabriel's proportionate share of Fontana Union's
9 water supply was approximately 40%."³⁰²

10 Mr. Whitehead's testimony further explains what is meant by "San
11 Gabriel's proportionate share of Fontana Union's water supply."³⁰³ In all events,
12 the statements in Mr. Whitehead's testimony do not provide sufficient
13 substantiation on why San Gabriel should be allowed to change the amount of
14 funds ratebased due to the settlement and adopted in D.09-06-027.

15 Finally, Mr. Whitehead's direct testimony discusses how many shares of
16 "Fontana Union stock [San Gabriel] purchased when the lawsuit by certain
17 Fontana Union stockholders were resolved."³⁰⁴ Mr. Whitehead's testimony
18 actually supports the final result of D.09-06-027, which states, "[f]or San Gabriel,
19 this meant ... San Gabriel acquired from Western Water Company (290.1 shares)
20 and Vulcan Materials (68.5 shares) prior to the settlement and the 179.2 shares
21 San Gabriel acquired upon the settlement."³⁰⁵ It should be noted that the utility
22 admits that the 358.6 shares (purchased from the Western Water Company and
23 Vulcan Materials) were acquired prior to the settlement. The Commission's

³⁰² Ibid, page 23.

³⁰³ Ibid.

³⁰⁴ Ibid, page 24.

³⁰⁵ Ibid, page 25.

1 judgment to include only those shares acquired upon settlement is shown by
2 San Gabriel itself to be only the 179.2 shares.

3 The fact that the Slemmer lawsuit was filed in 2002 and the Western Water
4 Company 290.1 shares purchased by San Gabriel occurred in March of 2000 also
5 supports the Commission's position that the relevant shares are 179.2. Moreover,
6 while the Vulcan Materials 68.5 shares were purchased after the Slemmer suit was
7 filed, the utility does not indicate that the price paid for these shares was in any
8 way related to the Slemmer lawsuit.

9 (a) "[San Gabriel] represents that the Slemmer suit was without merit",³⁰⁶

10 In Mr. Whitehead's testimony, San Gabriel states that "Western Water and
11 Vulcan remained plaintiffs in the Slemmer lawsuit and, among other things, were
12 claiming the right to additional compensation for the shares they already sold to
13 San Gabriel...."³⁰⁷

14 However, as the Commission acknowledged in the last general rate case
15 decision, D.09-06-027, San Gabriel stated itself that the Slemmer suit was without
16 merit.³⁰⁸ The Commission reasoned that if the Slemmer suit had no merit, then
17 San Gabriel was not "at any significant risk of having to pay more for the 358.6
18 shares previously acquired."³⁰⁹

19 Also, D.09-06-027 points out that without any risk involved regarding the
20 previously acquired 358.6 shares then, "there is little if any value to ratepayers of
21 the Slemmer settlement regarding these shares. For [San Gabriel-Fontana] to lose
22 the suit, it would have been found to have acted improperly regarding the purchase
23 of the 358.6 shares previously acquired. If that had happened, there would be no

³⁰⁶ D.09-06-027, Finding of Fact No. 46, page 81.

³⁰⁷ Direct Testimony of Michael Whitehead, page 27.

³⁰⁸ D.09-06-027, mimeo page 14.

³⁰⁹ Ibid, Findings of Fact No. 47, page 81.

1 reason for ratepayers to pay for the results of [San Gabriel's] wrongdoing.”³¹⁰
2 The Commission reasons, “[t]herefore, there is no reason to allow an additional
3 portion of the costs of the Slemmer settlement in ratebase.”³¹¹

4 In addition, Mr. Whitehead states “Upon settlement of the lawsuit, both
5 Western Water and Vulcan Materials received additional compensation for their
6 shares from San Gabriel. In return, San Gabriel received clear title to all of its
7 537.8 Fontana Union shares at stake in the lawsuit.”³¹² This would infer that the
8 additional compensation discussed here was somehow related to San Gabriel
9 obtaining a clear title to these shares.

10 However, in response to a City of Fontana data request, San Gabriel states,
11 “The Stock Purchase Agreement between Western Water Company and San
12 Gabriel, Western Water Company made express representations and warranties to
13 San Gabriel including among others, that Western Water owned the shares free
14 and clear of all legal or equitable claims. mortgages, liens, loans, pledges and
15 encumbrances.”³¹³ The utility responded in the same manner regarding the
16 purchased Vulcan Materials shares at issue.

17 (b) Kemper Funds recognized by the Commission

18 According to Mr. Whitehead’s testimony in the instant proceeding,
19 “San Gabriel’s general liability insurance carrier, Kemper Insurance Company, paid
20 \$6 million to the plaintiffs to settle and dismiss the stockholders’ lawsuit.”³¹⁴ The
21 Commission also discusses costs in relation to the Kemper insurance company in

³¹⁰ Ibid. page 14-15.

³¹¹ Ibid. page 14-15.

³¹² Direct Testimony of Michael Whitehead, page 27

³¹³ Response to City of Fontana data request, No. 2, Item 49.

³¹⁴ Direct Testimony of Michael Whitehead, page 28.

1 D.09-06-027 by stating, “Without Kemper’s participation, [San Gabriel] would have
2 had to pay a portion of the costs Kemper would have defrayed.”³¹⁵

3 Mr. Whitehead’s direct testimony in the instant proceeding states that
4 D.09-06-027 “did not take note of the crucial fact that San Gabriel’s insurer, not
5 San Gabriel, paid the six million dollars in ‘settlement costs’ to dismiss the
6 litigation claims against San Gabriel.”³¹⁶ However, in D.09-06-027, the
7 Commission did recognize Kemper’s participation when it found that “Kemper
8 was part of the Slemmer settlement and paid \$6 million into it.”³¹⁷

9 The Commission determined in the last general rate case that the cost to the
10 San Gabriel-Fontana ratepayer for the Slemmer suit was based upon the
11 calculation shown above, 179.2 shares each valued at \$8,850.

12 San Gabriel claims “The Commission characterized the amount paid for the
13 stock above that figure amount [\$1,585,920, the amount placed in ratebase as the
14 cost to the ratepayer] as lawsuit ‘settlement costs’...”³¹⁸

15 DRA has reviewed D.09-06-027 and does not find where San Gabriel
16 substantiates its claim that the utility’s payment into the Slemmer settlement,
17 minus the funds placed into ratebase was considered to be “settlement costs.”

18 Furthermore, the Commission made the factual determination in the last
19 general rate case that, “Slemmer settlement costs are not necessarily indicative of
20 the value of the 179.2 shares acquired or the value of removal of the plaintiffs’
21 claim regarding the 358.6 shares previously acquired.”³¹⁹

³¹⁵ Ibid, page 13.

³¹⁶ Ibid.

³¹⁷ D.09-06-027, Finding of Fact Number 34 page 79.

³¹⁸ Direct Testimony of Michael Whitehead, page 24.

³¹⁹ D.09-06-027, Finding of Fact No 29, page 79.

1 (c) Fair market rates and price paid

2 Mr. Whitehead's direct testimony continues by stating "San Gabriel did
3 nothing more at the conclusion of the lawsuit than it was willing to do before the
4 lawsuit; that is, pay fair market value of the underlying local water rights
5 represented by those shares."³²⁰ The City of Fontana requested data regarding this
6 fair market value and San Gabriel responded, "San Gabriel did not conduct a fair
7 market value analysis of the underlying local water rights represented by the
8 shares to determine a price per share that was acceptable to San Gabriel."³²¹ DRA
9 believes that while San Gabriel did not look into the fair market value of the
10 shares, the Commission did do such an analysis and correctly valued the stock in
11 question.

12 The next section of Mr. Whitehead's testimony discusses the price paid and
13 how it "compares favorably to recent sales of adjudicated local water rights
14 ranging from \$3,540 to \$5,534 per acre-foot of adjudicated water rights."³²² The
15 utility discusses "recent sales" but it is not clear how recent sales could have
16 impacted the value of the stock in question in the last general rate case.

17 The final question of Mr. Whitehead's direct testimony asks: "Are you
18 requesting the Commission to change the way it treats San Gabriel's investment in
19 shares of Fontana Union stock?" Mr. Whitehead states the following, "Fontana
20 Union shares as of December 31, 2010 were an average cost of \$872 per share"
21 and continues by stating how this is so much cheaper than the "one-time purchase
22 of an acre-foot of imported water from the Metropolitan Water District of
23 Southern California."³²³

³²⁰ Ibid pages 24-25.

³²¹ Response to City of Fontana data request, No. 2, Item 44.

³²² Ibid.

³²³ Direct Testimony of Michael Whitehead, page 30.

1 The issue for San Gabriel-Fontana is not to compare Fontana Union share-
2 related water to water purchased from the Metropolitan Water District of Southern
3 California. As specified in Ordering Paragraph 6 of D.09-06-027, San Gabriel-
4 Fontana is required to explain why any information included in the instant
5 proceeding related to “the ratemaking treatment of the settlement costs of the
6 Slemmer law suit” was not and could not have been included in the last general
7 rate case. In addition, DRA does not see how the price of Metropolitan Water
8 District of Southern California water is relevant as it is not available on the open
9 market. Any analysis with this source fails to show that the cost for water on the
10 open market is higher than the range the Commission determined in D.09-06-027.

11 Beyond the requirements of Ordering Paragraph 6 of D.09-06-027, San
12 Gabriel has not included any information in the instant proceeding that refutes the
13 specific manner in how the Commission valued the settlement in terms of the San
14 Gabriel ratepayer.

15 **D. SLEMMER SETTLEMENT - CONCLUSION**

16 The analysis of the information submitted by the utility in this Application,
17 does not suggest any new information that would change the facts submitted in the
18 last decision, nor is there any information here that would warrant a change in the
19 Commission’s reasoning from the last decision.

20 For all of the reasons shown above, the Commission’s decision regarding
21 the Slemmer funds, as mandated in D.09-06-027, should not be modified.

22 **E. OFFICE COMPLEX - INTRODUCTION**

23 Completed in mid-2009, the new Office and Garage Buildings is located at
24 15966 Arrow Route in the City of Fontana. San Gabriel addresses the completion of
25 the Complex, disposition of its costs, and impact on ratebase for ratemaking
26 purposes in this instant proceeding, A.11-07-005.

1 Along with a review of the Fontana’s instant proceeding, DRA reviews the
2 relevant Commission orders mandated in Fontana’s last general rate case decision,
3 D.09-06-027.

4 The Complex consists of two buildings. Building A is a 26,381 square foot
5 office building housing both Fontana and San Gabriel General Division
6 administrative employees. Building B is a 14,293 square foot building devoted
7 entirely to Fontana operations and maintenance employees and activities. Taken
8 together, the Complex covers 40,674 square feet.

9 The Complex has been certified by the United States Green Building
10 Council as a “green” building. This designation was awarded because the
11 Complex amassed enough points to obtain the Council’s “Leadership in Energy
12 and Environmental Design” certification.

13 **F. OFFICE COMPLEX - SUMMARY OF RECOMMENDATIONS**

14 The issues in this proceeding involve costs to build the Office Complex,
15 ratebase adjustments regarding Building A and B costs, and balancing account
16 recovery for costs related to 16 General Office employees that the Commission
17 determined would temporarily occupy Building A.

18 The last general rate case decision resulted in a ratebase reduction of
19 \$3,100,896 to Building A’s costs.³²⁴ Fontana requests this reduction be
20 eliminated while DRA recommends this disallowance continue as Fontana
21 provided no evidence in this case to warrant any change to that decision.

22 The last general rate case decision resulted in “San Gabriel Valley Water
23 Company’s rates ... subject to refund ... pending a reasonableness review of ... the

³²⁴ D.09-06-027, mimeo page 93.

1 Office Complex, and its construction method.”³²⁵ DRA recommends an
2 independent audit of the Complex costs and an audit be conducted regarding the
3 method of construction.

4 The last general rate case decision stated “San Gabriel Valley Water
5 Company is authorized to set up a balancing account ...for 16 General Office
6 employees to be temporarily located in Building A of the Office Complex...” and
7 “[i]n the next general rate case ... the appropriate rent ... for the 16 General Office
8 employees ... be determined ... in that proceeding.”³²⁶ DRA recommends the
9 funds allocated in rates for this balancing account in the last general rate case
10 decision and Fontana’s accounting of those funds in the instant application are
11 reasonable and should be approved.

12 According to San Gabriel’s last General Division rate case, D.08-06-022,
13 DRA recognizes the accounting for \$2.9 million in its General Division was
14 allocated to represent 30% of the Building A costs for housing 27 General Office
15 employees. The \$2.9 million was further allocated between San Gabriel’s two
16 divisions. Accordingly, \$1.4 million was to be added to the Fontana General
17 division after a prudency review for costs. The remaining \$1.5 million was added to
18 the Los Angeles General division, but the same prudency review made those funds
19 subject to refund.³²⁷ This review was to be undertaken in the instant proceeding.

20 Finally, the Commission originally estimated the Complex costs at about
21 \$4.9 million, whereas the final costs are closer of \$20 million. Each prior decision
22 has listed the escalating costs of the Complex Fontana requested in its respective
23 case, yet the reasonableness for all costs have not yet been determined.

³²⁵ Ibid, p. 111.

³²⁶ Ibid, mimeo pages 111-112.

³²⁷ D.08-06-022, mimeo page 54.

1 **G. OFFICE COMPLEX - DISCUSSION**

2 San Gabriel first requested the Commission authorize its Fontana division a
3 new office building complex during Fontana’s 2002 general rate case proceeding,
4 Application (A.) 02-11-044. San Gabriel claimed that new Office Complex would
5 provide a safer and more efficient working environment than the existing array of
6 its very old facilities, and therefore should be approved.

7 **1) Genesis of Complex begin with A.02-11-044**

8 In the 2002 proceeding, the Commission acknowledged the utility had two
9 issues to address in terms of changing the location of the Fontana division offices.
10 The Commission acknowledged that Fontana needed to address both the
11 construction of its new offices and the disposal of its existing facilities. The
12 Commission addressed both of these issues in its ensuing final decision,
13 D.04-07-034.

14 In terms of construction of Fontana’s new offices, the Commission stated in
15 D.04-07-034, “Deferral of the proposed new office building will reduce rate shock
16 to Fontana Division customers.”³²⁸ Regarding disposal of its existing facilities,
17 the Commission ordered, “In its next general rate case proceeding, if San Gabriel
18 requests authorization to construct a new office building, San Gabriel shall address
19 the ratemaking treatment of the proceeds from sale of the existing facility.”³²⁹

20 Also authorized by D. 04-07-034, “San Gabriel may purchase land
21 in Fontana for an office building and include the cost in rate base.”³³⁰
22 While D.04-07-034 authorized the land purchase, it deferred the new office
23 building. Some parties in that proceeding opposed the project completely.

³²⁸ Ibid, mimeo page 68.

³²⁹ Ibid, Ordering Paragraph No 5, mimeo page 72.

³³⁰ D.04-07-034, Ordering Paragraph No 5, mimeo page 72.

1 For example, the “[c]ity, School District and ORA³³¹ oppose this new
2 facility on the basis that it is not needed or that it is a luxury the ratepayers
3 cannot afford.”³³² In fact, parties to the final decision requested a rehearing
4 of D.04-07-034.

5 (a) Rehearing of D.04-07-034 and purchased Complex parcel

6 A limited rehearing of D.04-07-034 was granted on August 25, 2005. One
7 of the rehearing issues involved the land purchase for the new Complex. The
8 ensuing opinion, D.06-06-036, stated that Fontana “... did not meet its burden of
9 proof on certain ratemaking issues, specifically... (C) the purchase price of land
10 for a new office.”³³³ The Commission determined in the rehearing decision, “San
11 Gabriel did not present clear and convincing evidence of the reasonableness of the
12 purchase price of the land for the new office building, nor is the record clear as to
13 how much of the purchase price, if any, was included in rate base.”³³⁴

14 Consequently, the rehearing decision ordered “[t]he rates and charges
15 authorized by Decision 04-07-034 are subject to refund to the extent that they are
16 based upon a rate base which includes plant purchased with funds received
17 from:... (C) the purchase of land for a new office.”³³⁵ The Commission stated it
18 would review the land issue in A.05-08-021, the subsequent General Rate Case for
19 the Fontana division.

20 Results of the land review conducted in A.05-08-021 were published in
21 final decision, D.07-04-046. First, the Commission determined that the size of the

³³¹ Former label for the Division of Ratepayer Advocates.

³³² D.04-07-034 mimeo page 41.

³³³ D. 06-06-036 mimeo page 2.

³³⁴ Ibid, mimeo page 17.

1 parcel San Gabriel purchased for purposes of the Complex was 4.81 acres.³³⁶
2 These 4.81 acres were part of a larger parcel of 8.72 acres purchased in 2003.
3 The 4.81 acres represents 55% of the total 8.72 total acreage originally purchased.

4 The larger parcel of 8.72 acres was originally acquired by Rosemead
5 Properties, Inc. (Rosemead), on July 8, 2003 for \$1,075,000. San Gabriel then
6 acquired 55% of this property, 4.81 acres, for its new Complex on December 30,
7 2004 for \$1,102,233 from Rosemead. Rosemead is an affiliate company of San
8 Gabriel.

9 The Commission determined in D.07-04-046 that the purchase price was
10 \$1,075,000, not the \$1,102,233 price San Gabriel claimed it paid its affiliate for
11 the property. The final analysis in D.07-04-046 determined “.....San Gabriel
12 should have been charged 55% of \$1,075,000, or \$591,250 for the land.”³³⁷ The
13 Commission granted the entire \$591,250 into ratebase for ratemaking purposes.

14 (b) D.04-07-034 rehearing results reflected in instant proceeding

15 In the instant proceeding, the City of Fontana questioned if the land
16 disallowance was properly reflected. According to the City’s request, “the
17 Commission only allowed \$591,250 of the \$1,075,000 paid by San Gabriel to
18 Rosemead Properties...based on Attachment H, ... the Company is including the
19 full land acquisition price and did not make an adjustment to remove the portion
20 disallowed by the Commission in D.07-04-046.”³³⁸ Fontana responded to the
21 City’s request by stating yes, the total purchase price San Gabriel paid is recorded,

(continued from previous page)

³³⁵ Ibid, Ordering Paragraph 1, mimeo page 30.

³³⁶ D.07-04-046, p.48

³³⁷ D.07-04-046, mimeo page 47.

³³⁸ Response to City of Fontana data request, Item 53.

1 but “[t]he \$510,983 disallowance by the Commission in D.07-04-046 has been
2 allocated between building A and B...”³³⁹

3 Fontana’s accounting basis for the land disallowance starts with San
4 Gabriel’s recorded price of \$1,102,233, not the Commission’s determined price of
5 \$1,075,000. Therefore, the disallowance to reflect the permitted ratebase amount of
6 \$591,250 is \$1,102,233 minus \$510,983.

7 (c) The escalating estimated cost of the Complex

8 The costs of the Complex, first reviewed by the Commission in Fontana’s
9 2002 application, A.02-11-044, began with an estimated amount of \$3 million. In
10 Fontana’s next general rate case, final decision, D.07-04-046, Fontana “[e]stimates
11 that cost to construct the new facility will be \$6,000,000 and that the cost be
12 included in rates through an advice letter.”³⁴⁰

13 According to D.07-04-046 “[t]he proposed new office complex of 40,658
14 square feet is approximately twice the size of the facilities (20,827 square feet) it
15 is designed to replace...”³⁴¹ DRA believed “[t]hat the proposed facility is
16 excessive when compared to the facilities to be replaced; the \$6 million request
17 exceeds the \$4.9 million cost to refurbish the existing facilities...”³⁴²

18 The Commission authorized in D.07-04-046, for ratemaking purposes, the
19 costs to refurbish Fontana’s existing facilities at \$4.9 million. The authorized \$4.9
20 million was recorded as Construction Work in Progress and spread over the years
21 2006 and 2007. This decision also determined “[i]n its next rate case, costs should
22 be reviewed for prudence and the facility’s size evaluated to determine whether

³³⁹ Ibid.

³⁴⁰ Ibid, p. 48.

³⁴¹ Ibid.

³⁴² Ibid, p. 49.

1 the entire facility is used and useful. Should the final amount of the new facility
2 placed into rates exceed that amount for which [Construction Work in Progress]
3 was allowed, the balance plus an allowance for funds used during construction
4 should be placed into ratebase.”³⁴³

5 The next application to address the Complex’s costs occurred in the
6 company’s Los Angeles County division general rate case, A. 07-07-003 (final
7 decision D.08-06-022). In this Application, the utility claimed the Complex for
8 the Fontana division now shared costs with its Los Angeles County division.
9 During A. 07-07-003, the utility informed the Commission these shared expenses
10 were due to the fact that 30% of the space would be occupied by 27 General
11 Division employees.³⁴⁴

12 By the time D.08-06-022 was published, the expenses for Building A
13 had escalated to \$9.6 million. In discussing the new Complex’s Building A,
14 San Gabriel revealed the “[n]ew building will house 27 General Division
15 employees...”³⁴⁵ Accordingly, D.08-06-022 allocated Building A expenses
16 for these 27 General Division employees in the utility’s General Division
17 expenses.

18 San Gabriel claimed the 27 General division employees would occupy 30%
19 of the space available in the new building floor plan.³⁴⁶ As a result, the utility
20 accounted for 30% of the \$9.6 (\$2.9 million) in its General Division accounts.
21 Furthermore, the \$2.9 million was divided between San Gabriel’s two operational
22 divisions: \$1.5 million to the Los Angeles County division and \$1.4 million to the

³⁴³ Ibid, p. 50.

³⁴⁴ D.08-06-022 mimeo page 52

³⁴⁵ Ibid.

³⁴⁶ Ibid.

1 Fontana division. Subtracting the General division funds of \$2.9 million leaves \$6.7
2 million to be allocated to Fontana. It would appear that 30% of the Building A costs
3 were covered by this allocation.

4 Accordingly, D.08-06-022 allocated the remaining \$6.7 million to the
5 Fontana division. However, the decision adds in another \$3.3 million: “The
6 remaining \$6.7 million, or 70%, of building costs along with an additional \$3.3
7 million of related building complex costs would be allocated to Fontana Division
8 since the division will directly use the space.”³⁴⁷

9 The Building A costs allocated to Fontana were recorded in the following
10 manner: direct costs of \$6.7 million with site-related costs of \$3.3 million plus
11 another \$1.4 million to be assigned to the General Division’s (its portion of the \$2.9
12 million shown above) of Building A’s cost.

13 The resulting allocation indicates Fontana’s total Building A liability now at
14 \$11.4 million. (Note this does not include the land cost already in ratebase of about
15 \$600,000 for both Buildings A and B.)

16 The Fontana ratepayer obligation for the new Complex’s Building A, at the
17 time of final decision D.08-06-022, totaled approximately \$12 million. Note that
18 language of D.08-06-022 refers only to the Office Building (A) of the Complex.

19 However, the prior Fontana General Rate Case decision, D.07-04-046
20 stated, “San Gabriel estimates that cost to construct the new facility will be
21 \$6,000,000...The proposed new office complex of 40,658 square feet ... includes
22 approximately 11,548 square feet of office space ...”³⁴⁸ This language indicates
23 the entire Complex was estimated to cost \$6 million.

³⁴⁷ Ibid.

³⁴⁸ D.07-06-046, mimeo page 48.

1 The next relevant application, Fontana’s last General Rate Case application
2 was filed July 1, 2008, A. 08-07-009 (final decision, D.09-06-027.)

3 According to D.09-06-027, the total Complex costs, once estimated at a total
4 cost of \$6 million in D.07-04-046, were now estimated to be \$18,124,864 (plus the
5 \$591,250 land price) for a total over \$18,716,100. In this decision, D.09-06-027,
6 the Commission goes into great detail in an effort to properly allocate costs based on
7 the available space in the Fontana Complex.

8 For example, the Commission points out that a study to determine the
9 appropriate size of the Complex was not conducted by the San Gabriel: “[San
10 Gabriel] provided no space allocation studies, prepared at the time the Office
11 Complex size was determined...”³⁴⁹

12 Finally, in the instant proceeding, A.11-07-005, the recorded costs are
13 \$18,836,051, plus the \$591,250 Commission allowed funds to be ratebased for the
14 land purchase for a total over \$19,427,301.³⁵⁰

15 The total reported costs for this project went from \$3 million in 2002 to over
16 \$19 million in the instant proceeding.³⁵¹

³⁴⁹ D. 09-06-027, mimeo page 54.

³⁵⁰ Robert Nicholson, Direct Testimony, page 6.

³⁵¹ Ibid.

1 Complex costs:

	Component	Total Cost D.09-06-027	Total cost
	Buildings A/B Construction	\$11,254,094	
	Site work	3,517,490	
	Design fee	1,217,211	
	Permits, fees, etc.	749,347	
	Overheads	502,144	
	AFUDC ³⁵²	884,578	
	Total D.09-06-027	<u>18,124,864</u>	
	Furniture request A.11-07-005	711,187	
	Total building costs	18,836,051	
	Ratebased Land cost	591,250	
	Total request with land		\$19,427,301

2 (d) Fontana’s requests, DRA’s response in this proceeding

3 Here, Fontana requests the entire cost of the Complex be placed in ratebase
4 for ratemaking purposes by stating, “The entire Fontana Headquarters Complex is
5 necessary and useful to the company in its utility operations.”³⁵³

³⁵² Allowance for Funds used During Construction amounts per last rate case decision.

³⁵³ Direct Testimony of Mr. Nicholson, page 8.

1 DRA believes this statement misses the mark. The Commission has worked
2 diligently with Fontana to make sure the Complex was used and useful. Recognizing
3 from the start that the building was too big, the Commission agreed with Fontana to
4 accommodate the vacant space with General Office employees. DRA believes the
5 Commission was correct when it stated, “Since the extra space in Building A will
6 never be needed by the Fontana Division and was not constructed for the purpose of
7 temporarily relocating GO employees, it should not be treated as utility property.”³⁵⁴

8 DRA believes that the escalating costs of the building should also be reviewed
9 and therefore recommends the current disallowance continue and an audit of the
10 actual construction costs be required.

11 (e) DRA recommends an independent audit of Complex construction
12 costs

13 DRA argued in Fontana’s 2005 General Rate Case that “[T]he proposed
14 facility is excessive when compared to the facilities to be replaced; the \$6 million
15 request exceeds the \$4.9 million cost to refurbish the existing facilities; the Company
16 has not provided any justification for the cost of the new office/warehouse...”³⁵⁵

17 DRA continued to address the issue of construction costs in the last general
18 rate case, as illustrated in D.09-06-027, which states. “To estimate appropriate
19 costs for the Office Complex, DRA used the RS Means Square Foot Cost 2008
20 Edition. DRA points out that [San Gabriel] used RS Means Cost Guidelines in
21 estimating costs for some facilities in the forecast phase of this proceeding.
22 Overall, DRA found that the appropriate cost of the Office Complex at the size
23 actually built would be \$10,488,618, of which DRA recommends including
24 \$7,856,990 in ratebase.”³⁵⁶

³⁵⁴ D.09-06-027, mimeo page 105.

³⁵⁵ D.07-04-046, mimeo page 46.

³⁵⁶ D.09-06-027, mimeo page 50.

1 While the last general rate case decision, D.09-06-027, states the utility's
2 analysis regarding space allocation costs were "no more persuasive than DRA's
3 evaluation,"³⁵⁷ this does not mean DRA's analysis and related concerns regarding
4 actual construction costs are not valid.

5 It is reasonable to expect a professional corporation capable of planning a
6 Complex of this size is also competent to estimate the final expense horizon within a
7 slight range of variances. The Complex expenses increased from its initial estimate
8 of \$3 million to approximately \$19 million when it was completed, which is an
9 increase of more than 600%.

10 One example showing that the expenses for the Complex are not clear and
11 convincing is shown in the instant proceeding. According to Mr. Nicholson's direct
12 testimony in the instant proceeding, there is an Allocation of Unidentifiable costs
13 that include "\$3,797,752 Unidentifiable Costs" paid to the Earl Corporation.³⁵⁸
14 This amount includes over \$2.5 million in unidentifiable "general structures and
15 improvements" and another set of unidentifiable costs of over \$58,000 for office
16 furniture and equipment.

17 DRA is concerned with the magnitude of these unidentifiable costs. DRA
18 recommends that the Complex costs be audited for accuracy and reasonableness.
19 Funds determined not properly allocated to the Complex should be disallowed and
20 ratepayers be refunded for rates associated with the disallowed costs that have been
21 included in ratebase.

22 The rationale for the audit can be found in the language of D.09-06-027, "In
23 order to develop a revenue requirement for [D.09-06-027], no disallowance is made
24 at this time for the size of the facilities except to the extent Building A was built to

³⁵⁷ Ibid, mimeo page 54.

³⁵⁸ Robert Nicholson Direct Testimony, Attachment H.

1 accommodate in excess of 44 employees....”³⁵⁹ This indicates that other
2 disallowances based on other criteria was envisioned as a possibility by the
3 Commission.

4 **2) DRA review of D.09-06-027**

5 According to D.09-06-027, the Commission adjusted the Complex
6 expenditures recoverable in rates. The Commission determined Building A was
7 built too big for the needs of the Fontana division. Accordingly, per the
8 Commission’s decision, the structure should have been 68.8% of its final size.
9 Therefore, the costs requested for Building A, excluding site related costs, was
10 adjusted to 68.8% of requested expenditures of Building A. This adjustment
11 resulted in a ratebase reduction of \$3,100,896.³⁶⁰

12 DRA has reviewed the \$3,100,896 adjustment to ratebase along with other
13 relevant ordering paragraphs in D.09-06-027. These orders are:

14 Ordering Paragraph #11:

15 “11.In the next general rate case, San Gabriel Valley Water Company shall
16 provide information on the historical (2009-2011) costs and forecast costs
17 of rental office space throughout its service territories, not just the Fontana
18 Division, of a type suitable for the 16 General Office employees addressed
19 herein.”

20 Ordering Paragraph #12:

21 “12.San Gabriel Valley Water Company’s rates shall be subject to refund
22 with interest for the revenue requirement associated with the costs of the
23 Office Complex pending a reasonableness review of those costs in its next

³⁵⁹ Ibid., page 54.

³⁶⁰ In the instant proceeding, Fontana requests the reduction rescinded and entire costs recoverable from ratepayers.

1 general rate case regarding its space allocation and resulting size of the
2 Office Complex, and its construction method.”

3 Ordering Paragraph #13:

4 “13.In its next general rate case for the Fontana Division, San Gabriel
5 Valley Water Company shall provide a thorough affirmative showing
6 regarding the reasonableness of the Office Complex costs attributable to its
7 space allocation and the resulting size of the Office Complex, and its
8 construction method.”

9 Ordering Paragraph #14:

10 “14.San Gabriel Valley Water Company is authorized to set up a balancing
11 account to record the amount of rent included in rates for 16 General Office
12 employees to be temporarily located in Building A of the Office Complex,
13 including associated operations and maintenance expenses, and
14 administrative and general expenses.”

15 Ordering Paragraph #15:

16 “15.In the next general rate case for the Fontana Division, the appropriate
17 rent amount for this general rate case cycle, for the 16 General Office
18 employees to be temporarily located in Building A of the Office Complex,
19 shall be determined and any over or under collection in the balancing
20 account, with interest, shall be amortized over an appropriate period to be
21 determined in that proceeding.”

22 Two of the ordering paragraphs above (Ordering Paragraphs 12 and 13)
23 relate to the size of Building A.

24 Ordering Paragraph No. 12 orders the Complex costs subject to refund based
25 on the size issue. Ordering Paragraph No. 13 orders Fontana to provide a thorough
26 affirmative showing regarding the reasonableness of the Office Complex. Both

1 orders refer to the Building A costs as well as its construction method, which is
2 reviewed separately below.

3 In the last general rate case proceeding, A.08-07-009, DRA pointed out that
4 the utility did not perform a space allocation study as part of its design in order to
5 determine space needs for Building A. Based on the guidelines provided by the
6 California Department of General Services State Administrative Manual, industry
7 standards for non-personnel office space and Fontana's recommended sizes for
8 some areas such as restrooms, storage space and copy areas, DRA concluded the
9 necessary square footage for Building A at 16,910 square feet. This represents
10 64.1% of the space actually built.

11 In the final decision for A.08-07-009, D.09-06-027, the Commission
12 concluded the necessary square footage for Building A should have been 68.8%
13 of the size actually built, or approximately 18,150 square feet. The Commission
14 made this calculation based on the number of Fontana employees required (44)
15 versus number of positions available in Building A (64), which equates to 44/64
16 or 68.8%.

17 (a) Building A revenue requirement subject to refund

18 Because of this disparity between forecasted need and actual availability, the
19 Commission determined, "In order to develop a revenue requirement for
20 [D.09-06-027], no disallowance is made at this time for the size of the facilities
21 except to the extent Building A was built to accommodate in excess of 44
22 employees...."³⁶¹

23 The Commission determined Fontana did not construct Building A based
24 on the final number of Fontana employees that would be required for the final

³⁶¹ D.09-06-027, mimeo page 54.

1 estimated number ratepayers for its service territory (at build out) as the basis for
2 the building's size. The Commission recognized this fact and made an adjustment
3 to the costs allowed into ratebase to correlate with the proper size or 68.8% of the
4 Building A space constructed.

5 **3) Summary of Office Complex Ratebase for ratemaking purposes**

6 DRA recognized the need to review the Commission's authorizations for
7 the Office Complex. Since some of the costs were not placed into ratebase, rather
8 just estimates with authorizations based on future placement in ratebase, it became
9 apparent the need to document the ratebase history of the project. The first
10 decision was a general rate case decision.

11 (a) D.07-04-046

12 The Complex funds allowed in ratebase began with Fontana's general rate
13 case, D.07-04-046, "We will allow \$591,250 in rate base calculated on the ratio of
14 the size of the parcel..."³⁶² Also considered for ratemaking purposes in D.07-04-
15 046, "We will authorize San Gabriel to phase in up to \$4.9 million, the cost of
16 refurbishing the existing facility, in CWIP during the years 2006 and 2007. For
17 ratemaking purposes, this amount should remain in CWIP...."³⁶³

18 The Construction Work in Progress ("CWIP") funds remained until "[i]ts
19 next rate case, [when] costs should be reviewed for prudence and the facility's size
20 evaluated to determine whether the entire facility is used and useful. Should the
21 final amount of the new facility placed into rates exceed that amount for which

³⁶² D.07-04-046, mimeo page 47.

³⁶³ Ibid p. 50.

1 CWIP was allowed, the balance plus an allowance for funds used during
2 construction should be placed into ratebase.”³⁶⁴

3 (b) D.08-06-022

4 The next decision to impact the office Complex was the General Division
5 rate case, D.08-06-022. In that decision, the Commission granted Fontana’s
6 request, “[i]t is reasonable to expect that 27 General Division employees would
7 relocate to the new Fontana Building. Although we authorize an allocation of new
8 building space for those employees, we cannot specify the square footage or costs
9 at this time. That allocation must be decided in Fontana Division’s next GRC
10 ...”³⁶⁵

11 The 27 General Division employees represented 30% of the space in
12 Building A, as Fontana determined that “\$2.9 million, or 30%, of its \$9.6 million
13 forecasted cost for a new Fontana office building expected to be completed in
14 December 2008.”³⁶⁶

15 The Commission determined, “[w]e will include \$2.9 million of the new
16 Fontana building’s current estimated costs in General Division’s rate base. The
17 \$2.9 million should be allocated \$1.5 million to LA Division and \$1.4 million to
18 Fontana Division, based on the adopted four-factor rate. LA Division’s share
19 should be made subject to refund, pending a review of building costs in the
20 upcoming Fontana Division GRC. Consistent with D.07-04-046, Fontana
21 Division’s \$1.4 million allocated amount should not be included in rates until the

³⁶⁴ Ibid.

³⁶⁵ D.08-06-022, mimeo page 54.

³⁶⁶ Ibid, p. 52.

1 building costs have been reviewed for prudence and the facility's size evaluated to
2 determine whether the entire facility is used and useful.”³⁶⁷

3 (c) D.09-06-027

4 The last general rate case decision for Fontana, D.09-06-027, refers to the
5 General Division rate case, “[i]n D.08-06-022 ... the Commission determined that
6 it would be reasonable to move 27 GO employees to Building A to relieve
7 overcrowding in the GO facilities, but left the allocation of space and costs to this
8 proceeding. The decision recognized the fact that Building A will have sufficient
9 room to accommodate the additional GO employees, but did not determine that
10 Building A should be built to accommodate the GO employees.”³⁶⁸

11 While there is no specific reference in D.09-06-027 to the General Division
12 allocation of \$2.9 million, this most recent general rate decision does state that the
13 allocation of space and costs were to be addressed in the D.09-06-027 decision. In
14 terms of Building A's space, the Commission factually determined that, “[b]uilding
15 A was not designed with the intent of relocating GO employees.”³⁶⁹ Furthermore,
16 Fontana, “[s]hould have designed Building A to accommodate the existing
17 35 employees plus an additional 25% (nine employees) for a total of 44 employees
18 according to its own employee growth projections.”³⁷⁰

19 The Commission concluded in D.09-06-027, “[t]herefore, the cost of
20 Building A, ...a reduction of \$3,100,896...The resulting total cost for Building A,
21 including site-related costs, is \$13,046,468 less \$3,100,896 or \$9,945,572.”³⁷¹

³⁶⁷ Ibid, p. 54.

³⁶⁸ D.09-06-027, mimeo page 56.

³⁶⁹ Ibid, Finding of Fact No. 147, p. 92.

³⁷⁰ Ibid, Finding of Fact No. 151, p. 92.

³⁷¹ Ibid, p. 58.

1 Fund allocation was also addressed in D.09-06-027. First, the Commission
2 recognized Fontana will need, at build out, an additional 9 employees, “[t]he
3 Building A related costs attributable to the nine GO employees are 20.5% (9/44) of
4 the total costs of Building A or \$2,034,322. These costs will be included in the GO
5 ratebase and excluded from the Fontana Division ratebase. The remaining Building
6 A related costs, \$7,911,251, will be included in the Fontana Division ratebase.”³⁷²

7 According to D.09-06-027, Fontana recalculated the number of General
8 Office employees discussed in D.08-06-022 from 27 down to 25. The Commission
9 then allocated 9 of them to represent future Fontana employees occupying 20.5% of
10 Building A (the \$2,034,322 to be recorded in the General Office ratebase).

11 Finally, the Commission accounted for the costs of the remaining 16 general
12 office employees (9+16=25.) These costs are not capitalized, rather imputed as
13 rental costs, “Therefore, the reasonable proxy for annual rent for the 16 GO
14 employees is \$156,718.”³⁷³

15 According to the general rate case decision, “[t]he costs for Building B are
16 \$5,078,396.”³⁷⁴

17 Fontana has requested in the instant Application that the entire costs be
18 placed in ratebase for ratemaking purposes because the company claims the entire
19 building will soon be fully occupied.

20 In order for DRA to address Fontana’s request, an assessment of each
21 decision’s impact on the Complex was conducted to determine how many funds are
22 currently in ratebase and consequently what funds are left that the company is now
23 requesting be placed in ratebase.

24 Therefore, a summary of the funding is shown below.

³⁷² Ibid, p. 58.

³⁷³ Ibid, p. 61.

³⁷⁴ Ibid, p. 62.

1 According to D.07-04-046, the imputed Complex land price of \$591,250 was
2 recorded in ratebase. The Commission authorized a return on \$4.9 million as
3 Construction Work In Progress.

4 According to D.08-06-022, the company claimed that 30% of the Building A
5 office space would be occupied by general office employees. At that time, 30% of
6 the estimated construction expenses were \$2.9 million (30% of 9.6 million) and that
7 was allocated as a future inclusion of \$1.4 million for Fontana's General Division
8 ratebase and \$1.5 million placed in the Los Angeles General Division ratebase,
9 subject to refund. This decision determined that the Fontana share would not go
10 into ratebase unless and until authorized in the next general rate case (the instant
11 proceeding) and the Los Angeles portion subject to refund was also up for review in
12 the instant proceeding.

13 This is a critical distinction in the instant proceeding because the company
14 recorded the Los Angeles portion as a reduction to the Fontana ratebase until June
15 of 2009 when it no longer accounts for these funds as a reduction to the Fontana
16 ratebase.³⁷⁵

17 Therefore the \$1.5 million General Division ratebase recorded in the Los
18 Angeles General Division ratebase is subject to refund in the instant proceeding. In
19 addition, the \$1.4 million for the Fontana division was not to be placed into rates
20 since it is part of the \$2.9 million authorized in D.08-06-022, up for review in the
21 instant proceeding.

22 According to D.09-06-027, a portion of the building's cost was allocated to
23 the General Division when it determined that, "[t]he Building A related costs
24 attributable to the nine GO employees are 20.5% (9/44) of the total costs of Building
25 A or \$2,034,322. These costs will be included in the GO ratebase and excluded

³⁷⁵ Response to City of Fontana data request, September 13, 2011, Attachment 60, page 2 of 2.

1 from the Fontana Division ratebase. The remaining Building A related costs,
2 \$7,911,251, will be included in the Fontana Division ratebase.”³⁷⁶

3 In the next proceeding, the company tweaked its numbers by claiming that
4 27 employees no longer would be occupying Building A, but 25 instead. In
5 D.09-06-027, the percentage of occupation by the office employees was no longer
6 based on the company’s observations, rather the calculations and assumptions that
7 the Commission determined relevant.

8 Accordingly, the Commission determined that only 20.5% of Building A was
9 to be recorded in the General Division ratebase or \$2,034,322. Again note, this
10 decision makes no mention of the previous allocation of \$2.9 million.

11 The table below summarizes these observations.

12 ///

13 ///

³⁷⁶ Ibid, p 58.

	Building A	Building B		General Division	Subject to refund
Total Complex request A.11-07-005: \$18,836,051					
D.09-06-027	\$13,046,468	\$5,078,396	\$18,124,864		
Total Building A costs D.09-06-027	13,046,468				
Requests for furniture in A.11-07-005	<u>+711,187</u>		711,187		
Requested costs Building A -- D.09-06-027	13,757,655				
Total costs of Building B-- D.09-06-027		5,078,396			
Total requested for Complex A.11-07-005			<u>18,836,051</u>		
Nine future Fontana employees 20.5% cost of Building A to GO (D.09-06-027)			-2,034,322	2,034,322	
Building A disallowance (D.09-06-027)			-3,100,896		
Los Angeles general division in rates now D.08-06-022 - subject to refund					1,500,000
Fontana general division D.08-06-022 subject to prudence review before inclusion				1,400,000	
D.09-06-027 Building A			-7,889,046		
D.09-06-027 Building B			-5,078,396		
Affiliate reduction regarding land costs			-22,205		
Request in A.11-07-005			711,186		

2 The cost of Building A, excluding site related costs, should be 68.8% of the
3 \$9,938,769 costs or \$6,837,873, a reduction of \$3,100,896.³⁷⁷ This calculation
4 correlates to support the actual number of employees Fontana will require for
5 occupancy at build out: 44 or 68.8% of Building A's completed size. Accordingly,
6 Building A resulted in a disallowance of \$3,100,896.

³⁷⁷ Total Building A costs, less site-related costs, are \$9,938,769.

1 (d) San Gabriel has not met its burden of proof

2 The last general rate case decision determined that San Gabriel failed to
3 meet its burden of proof “regarding the space allocation and resulting size of the
4 Office Complex facilities.” The Commission reasoned, “[San Gabriel] provided
5 no space allocation studies, prepared at the time the Office Complex size was
6 determined, that clearly indicate that the sizes of Building A or B are reasonable
7 for the number of employees that were planned to occupy them and the functions
8 the employees were to perform...”³⁷⁸ The last general rate case decision
9 determined, “Thus, [San Gabriel] has not met its burden of proof regarding the
10 space allocation and resulting size of the Office Complex facilities.”³⁷⁹

11 (e) San Gabriel has not met its burden of proof, and therefore the
12 Commission should continue this disallowance.

13 Besides lacking any new data to justify the size of Building A, the instant
14 application continues to lack any type of space allocation study and therefore the
15 utility has failed to meet its burden of proof. DRA cannot find any facts in the
16 instant proceeding that would impact the existing disallowance. DRA
17 recommends the current disallowance continue at \$3,100,896.

18 (f) Building A requires an affirmative showing regarding the
19 reasonableness of the Office Complex.

20 Ordering Paragraph No. 13 states the utility’s obligation to produce an
21 affirmative showing regarding the reasonableness of the Office Complex costs
22 attributable to its space allocation and the resulting size of the Office Complex.

³⁷⁸ Ibid

³⁷⁹ D.09-06-027 mimeo page 54.

1 (g) A “CAD” Analysis by the utility

2 In its testimony, San Gabriel suggests it has complied with Ordering
3 Paragraph 13 of D.09-06-027, which requires the company to make a: “thorough
4 affirmative showing regarding the reasonableness of the Office Complex costs
5 attributable to its space allocation and the resulting size of the Office Complex,
6 and its construction method.”³⁸⁰

7 Fontana’s Chief Engineer, Matt Yucelen, utilized a computer aided design
8 (“CAD”) program to produce a “drawing of the Building A, and which shows that
9 the Fontana division utilizes approximately 17,599 square feet or 67% of Building
10 A and the General division utilizes approximately 8,782 square feet or 33%.”³⁸¹

11 The company relies on this “detailed CAD-assisted analysis” to support its
12 allocation of investment in Building A between Fontana and the General
13 Division.³⁸²

14 The CAD program identifying the square footage of Building A used for its
15 Fontana division and for its General Office purposes does not constitute a
16 thorough affirmative showing regarding the reasonableness of the Office Complex
17 costs attributable to its space allocation. The CAD drawing³⁸³ actually showed
18 there is so much space in Building A that a full one-third can be occupied by
19 General Division employees.

20 This is slightly higher than the original 30% determined in D.08-06-022, but
21 close enough to verify the Commission’s calculations presented in D.09-06-027. In

³⁸⁰ D.09-06-027 Ordering Paragraph 13, mimeo page 111.

³⁸¹ A.11-07-005, Direct Testimony of Robert Nicholson, page 7

³⁸² Direct Testimony of Robert Nicholson, pp. 7-8.

³⁸³ Ibid, Attachment I.

1 addition, along with the existing General Division employees, the building still has
2 three offices and nine workstations vacant.

3 While the last general rate case decision calculated total occupancy of
4 Building A at 64 positions, the utility states “As shown on Attachment B hereto,
5 hand-marked version of Attachment I to SG-8 (the “CAD” picture), there are 76
6 employee work spaces in Building A as presently configured.”³⁸⁴

7 It is San Gabriel’s CAD drawing which proves that the Fontana’s Building
8 A currently, has “three offices and nine workstations unassigned at this time.”³⁸⁵
9 DRA recognizes that the number of spaces filled versus vacant (76-12) is
10 consistent with the Commission’s calculation of 64 estimated workstations/offices.

11 As stated above, San Gabriel has not provided any type of space allocation
12 study in the instant Application and, therefore, the utility has failed to meet its
13 burden of proof. Examples of issues included in a space allocation study include
14 the needs for meeting safety regulations such as fire codes, the company’s
15 historical practices, its organizational structure and its relationship to its core
16 missions. Other criteria for a space allocation study should include answers to
17 questions such as, “Will there be co-location for contractors?” For example, is
18 there space allocated for any of its affiliates? Does Fontana Union have an office
19 in Building A? Other questions answered by a space allocation study, “Will the
20 space be based on functions performed; or will work activities be predominantly
21 conducted in a joint context (for example, will one space be used by more than one
22 employee?)”³⁸⁶

³⁸⁴ Fontana’s response to DRA’s data request to KKE-001 Item 4c.

³⁸⁵ A.11-07-005, Direct Testimony of Robert Nicholson, page 8.

³⁸⁶ Space Allocation Study: Cecily Jeser-Cannavale and Lisa Frehill, December, 2004, See <http://www.advance.nmsu.edu/Documents/PDF/data2004.pdf>.

1 The CAD drawing shows a mere claim of the current formation of
2 workstations. The CAD drawing does not demonstrate that the size of the building
3 is proper for the Complex.

4 **4) Building A Criteria**

5 Building A of the Complex houses the administration employees for the
6 Fontana division. Two issues exist: how many employees are needed, in the long
7 run, for the Fontana division, and how much space is available in Building A.

8 (a) How many employees are needed for the Fontana division?

9 At the time the Office Complex was designed, Fontana intended to
10 accommodate its then current employees (35) plus enough space for the needed
11 employees to accommodate the service territory at buildout.³⁸⁷ According to the
12 utility's design criteria, the required number of additional employees at buildout
13 represented a 25% increase in employees. Allowing sufficient space for a 25%
14 employee increase results in nine additional workers requiring space for a total of
15 44 employees in Building A. These numbers are based on Fontana's own design
16 criteria. Therefore, Building A should have been designed to accommodate 44
17 employees.

18 According to San Gabriel's last General Division rate case filing, A.07-07-003,
19 (final decision D.08-06-022) the Commission determined the utility's request to move
20 27 General Office employees to Building A reasonable. However, the Commission
21 left open the allocation of space and costs for those General Office employees, i.e., it
22 did not determine that Building A should be built to accommodate those 27 General
23 Office employees. The Commission instead left that determination to the next
24 Fontana division general rate case, A.08-07-009 (final decision D.09-06-027).

³⁸⁷ Buildout will occur when the utility's service area is occupied such that no additional growth can occur.

1 In that last general rate case decision, D.09-06-027, the utility stated that
2 instead of 27 General Office employees it “plans to temporarily relocate 25
3 [General Division] employees to Building A....”³⁸⁸ The focus is not the change
4 from 27 to 25 General Division employees, but that the plan was temporary.

5 (b) How many employee spaces are in Building A?

6 The Commission added up the number of positions the company indicated
7 would occupy Building A: the original number of employees at the time of
8 Building A’s design, 35, plus the 25% increase needed to fully service the territory
9 when fully built out, an additional 9 employees.³⁸⁹ The total number of Fontana
10 employees for the Fontana service territory is therefore 44.

11 In D.09-06-027, the Commission determined the number of spaces
12 available in Building A as follows:

13 “[Fontana] now plans to temporarily relocate 25 GO employees to Building
14 A, which will leave space for an additional four employees unused, in
15 addition to the 35 current Fontana Division employees. Thus, Building A
16 has sufficient space for 64 employees (25+4+35).”³⁹⁰

17 The Commission determined in D.09-06-027 that Building A is large
18 enough to accommodate about 64 employees. This represents an 83% increase
19 over the then current number of Fontana Division employees (35) rather than the
20 25% that the utility’s own design criteria indicated was necessary. D.09-06-027
21 also stated unequivocally: “The extra space in Building A will never be needed by
22 the Fontana Division. Therefore, it should not be treated as utility property.”³⁹¹

³⁸⁸ D.09-06-027, mimeo page 56.

³⁸⁹ Ibid.

³⁹⁰ Ibid.

³⁹¹ Ibid page 105

1 Regardless of the facts provided by the utility in the instant proceeding,
2 nothing can change the fact that Building A is larger than needed and therefore
3 DRA recommends the utility's request to allocate the entire cost into ratebase be
4 disallowed. DRA believes the Commission was correct to disallow the \$3.1
5 million in D.09-06-027.

6 As shown above, Building A is larger than needed; in fact, the company
7 continues to reconfigure the space for more work stations. Yet, according to the
8 instant proceeding, as presently configured, it is still at least 12% vacant (total of
9 12 open desks)³⁹² with 76 employee work spaces in Building A.³⁹³

10 (c) It is inappropriate to remove the disallowance ordered in
11 D.09-06-027.³⁹⁴

12 Fontana does not address the facts regarding the space allocation issues per
13 the last general rate case decision, D.09-06-027. Instead the utility states, "The
14 entire Fontana Headquarters Complex is necessary and useful to the company in
15 its utility operations. The small amount of currently unassigned space can be
16 reasonably projected to be required for new employees in the near future, and as
17 such, is required to accommodate the increased office space needs associated with
18 those new employees. This is evidenced by the level of occupancy and space
19 available for growth to the company in its Fontana and El Monte offices..."³⁹⁵

20 The Commission determined in the last general case the building was built
21 too big, "The extra space in Building A will never be needed by the Fontana
22 Division..."³⁹⁶

³⁹² Response to DRA data request, KKE-001, Item 3.

³⁹³ Response to DRA data request, KKE-001, Item 4c.

³⁹⁴ Direct Testimony, Robert Nicholson, page 8.

³⁹⁵ Ibid.

³⁹⁶ D.09-06-027, mimeo page 105.

1 (d) DRA agrees with the Commission allocations in D.08-06-022

2 It is important to note that in the San Gabriel General Division decision,
3 D. 08-06-022, the utility claimed 27 General division employees would occupy
4 30% of the space available in the new building floor plan. This 30% was
5 accounted for in that decision by allocation of 30% of the \$9.6 projected costs
6 (\$2.9 million) in its General division accounts. "Consistent with D.07-04-046
7 and both [San Gabriel's] and DRA's comments in this proceeding, we will
8 include \$2.9 million of the new Fontana building's current estimated costs in
9 General Division's rate base. The \$2.9 million should be allocated \$1.5 million
10 to LA Division and \$1.4 million to Fontana Division, based on the adopted four-
11 factor rate. LA Division's share should be made subject to refund, pending a
12 review of building costs in the upcoming Fontana Division GRC."

13 This accounting is very similar to the Commission's determination in the
14 last general rate case decision, D.09-06-027, that determined 68.8% of the
15 building was required for the Fontana division.

16 It would appear on its face that the Commission's \$3.1 million
17 disallowance of the space allocation was basically the space that the General
18 Division employees occupy, as was expected per D.08-06-022.

19 However, the Commission was right to recognize that the building was
20 too big to begin with and the allocation of the General Division employees sited
21 at the new Fontana Building A was a prudent action by both the utility and
22 Commission to address the original problem- Building A was built too big.

23 The Commission did recognize that the 30% of Building A would be
24 occupied by General Division employees and accounted for that cost by placing
25 \$2.9 million in the General Division accounts. If the proposed DRA audit is
26 authorized, any accounting of the audit should begin with recognizing that \$2.9

1 million has already been authorized as the 30% cost of Building A, with the Los
2 Angeles' \$1.5 million still subject to refund in the instant proceeding.³⁹⁷

3 **5) D.09-06-027 Ordering Paragraphs 14 and 15**

4 In D.09-06-027 Ordering Paragraph No. 14 states, "San Gabriel Valley
5 Water Company is authorized to set up a balancing account to record the amount
6 of rent included in rates for 16 General Office employees to be temporarily
7 located in Building A of the Office Complex, including associated operations
8 and maintenance expenses, and administrative and general expenses."

9 (a) 16 general office employees in Building A

10 According to D.09-06-027, "The extra space in Building A will never be
11 needed by the Fontana Division. Therefore, it should not be treated as utility
12 property."³⁹⁸ Simultaneously, in the General Division general rate case, the
13 Commission recognized the utility's prudent actions to occupy the extra space and
14 in D.08-06-022, (General Division general rate case decision), the Commission
15 determined it was reasonable to move 27 GO employees to Building A.

16 In D.08-06-022, the Commission authorized the new Fontana Complex's
17 Building A to house 27 General Office employees, but left the allocation of space
18 and costs to the most recent Fontana general rate case decision, D.09-06-027.

19 Nine of the 27 employees represent the future Fontana employees required
20 by the company at build out. "These costs will be included in the GO ratebase and
21 excluded from the Fontana Division ratebase."³⁹⁹

³⁹⁷ D.08-06-022, mimeo page 54.

³⁹⁸ D.09-06-027, mimeo page 58.

³⁹⁹ Ibid, page 58.

1 The question now becomes how to account for the other 16 employees working
2 out of Building A. The last general rate case decision described in detail how to
3 account for their expenses using a proxy for rents. The decision determined that “The
4 total is \$156,718 which amounts to \$816 per employee per month.”⁴⁰⁰ A balancing
5 account was set up in Ordering Paragraph No. 14 of D.09-06-027 to record these
6 funds. Then Ordering Paragraph No. 15 of D.09-06-027 will determine the
7 appropriate rent for the 16 General Office employees temporarily located in Building
8 A, and the balancing account set up in Ordering Paragraph No. 14 of D.09-06-027 is
9 to be amortized.

10 According to the company, these employees are not temporary: “It is
11 anticipated that the General Office positions now located in the Fontana Office
12 will remain there for the foreseeable future.”⁴⁰¹ DRA recommends that the
13 Commission recognize that the allocation of \$2.9 million in D.08-06-022 was to
14 account for these positions.

15 **6) Building B costs**

16 In D.09-06-027, DRA had one issue regarding the size of Building B which
17 involved the vehicle service garage and associated office space. DRA
18 recommended that 2,340 square feet of Building B be excluded from rate base.
19 The Commission did not agree with DRA’s recommendation and ordered the costs
20 for Building B at \$5,078,396. ⁴⁰²

21 **7) Office Complex construction method**

22 The last general rate case decision also questioned the costs associated with
23 the Office Complex construction method: “SGV constructed the Office Complex

⁴⁰⁰ Ibid, page 60.

⁴⁰¹ Response to DRA data request KKE-003, Item 7d.

⁴⁰² D.09-06-027, mimeo page 61.

1 using steel frame construction...The record indicates that at least one other lower
2 cost construction method was available...As a result, SGV has not met its burden
3 of proof regarding its choice of steel frame construction.”⁴⁰³ The other lower cost
4 construction method available is called Tilt Up.

5 (a) Tilt-Up construction

6 The direct testimony of Matt Yucelen sums up the advantages and
7 disadvantages of using Tilt Up construction in once sentence: “The disadvantage of
8 using tilt-up construction is its inability to resist high magnitude vertical and
9 horizontal seismic forces.”⁴⁰⁴

10 Mr. Yucelen’s testimony on Tilt Up construction was valid at the time of the
11 Northridge and Loma Prieta earthquakes, but the lessons learned from those natural
12 disasters, over a decade ago, greatly improved the Tilt-Up construction methods.
13 An example of how these lessons were learned is by the “Further changes to the
14 Uniform Building Code (1991), including an increase in connection design forces of
15 50% at the mid-span of the diaphragms, were implemented following the 1989
16 Loma Prieta earthquake.”⁴⁰⁵

17 Mr. Yucelen’s direct testimony also provides a response to the following
18 questions regarding the use of Tilt-Up is also in terms of earthquakes: “What
19 impacts would occur to San Gabriel’s headquarters building if it were constructed
20 using a cheaper Tilt-Up structural system?” The core of his four sentence answer
21 is the following, “Tilt-Up construction is very vulnerable to collapse during a

⁴⁰³ Ibid, p. 55.

⁴⁰⁴ Ibid

⁴⁰⁵ Building Vulnerability Studies: Modeling and Evaluation of Tilt-up and Steel Reinforced Concrete Buildings; Pacific Earthquake Engineering Research Center; Editors, Wallace, John W. and Stewart Jonathan P., December, 1999

1 strong earthquake, because it is primarily dependent on its roof-to-wall
2 connections.”⁴⁰⁶

3 The entire proof submitted by the utility to prove that it made a prudent
4 choice in its choice of construction method is based on the actions of earthquakes in
5 affecting Tilt-Up constructed buildings.

6 Tilt-Up technology has changed due to information gleaned from natural
7 disasters such as the Northridge and Loma Prieta earthquakes. A 2004 report
8 sponsored by the California Energy Commission analyzed the seismic performance
9 of tilt-up buildings. One of the analyses used a “building ... similar to the PG&E
10 Meter Repair Facility in Fremont, California. Roof-to-wall connections and seat
11 connections of the glulam beams (GLB) were included in the models to predict
12 connection demands.”⁴⁰⁷ The 2004 report confirms that other utilities use Tilt-Up
13 construction.

14 (b) Tilt-up construction in 2011

15 Today Tilt-Up construction is found in schools, residential homes and the
16 traditional warehouse application. For example, the Mechanical Engineering
17 Research Laboratory at Stanford University is Tilt-Up construction.⁴⁰⁸ Another
18 example of Tilt-Up construction is the “The Teichert Branch of the Boys & Girls
19 Clubs of Greater Sacramento”⁴⁰⁹ opened in January of 2004.

⁴⁰⁶ A.11-07-005, direct testimony, Matt Yucelen, page 50

⁴⁰⁷ “Evaluation and Application of Concrete Tilt-up Assessment Methodologies” Graf, Timothy,
and Malley, James O., Pacific Engineering Earthquake Research Center, October, 2004, Part 2,
page 7

⁴⁰⁸ <http://www.tilt-up.org/topten/index.php>

⁴⁰⁹ Ibid

1 The majority of Mr. Yucelen's direct testimony regarding the utility's
2 justification for the use of a reinforced steel structure instead of the less expensive
3 Tilt-Up method focuses only on the history of earthquakes around the world. Mr.
4 Yucelen's direct testimony recognizes that since the San Gabriel Valley Water
5 Company is in California, it is therefore, vulnerable to earthquakes

6 The next issue addresses the construction costs associated with using Tilt-
7 Up, the more prudent construction method. DRA consulted with John Lawson⁴¹⁰
8 to determine if an amount could be determined. Mr. Lawson stated too many
9 conditions exist for such an analysis to be conducted without an actual audit of the
10 construction project in question.

11 (c) DRA recommendation for construction method

12 DRA recognizes the utility did not meet its burden of proof regarding the
13 choice of construction method for the Complex (above principals apply to
14 Building B as well as Building A) however, DRA does not find it reasonable to
15 choose an adjustment to the costs without a bona fide audit of the project. DRA
16 therefore cannot recommend any adjustments to the funds in ratebase due to the
17 chosen construction method unless an analysis of the costs associated with the
18 same project using the Tilt-Up construction method be performed and submitted
19 for DRA's review.

20 DRA recommends the Commission order San Gabriel to conduct such a
21 cost analysis and submit it with its next General Rate Case to determine whether
22 any cost adjustments to the Complex is appropriate in relation to the construction
23 method.

⁴¹⁰ Assistant Professor, Department of Architectural Engineering, California Polytechnic State University, San Luis Obispo, CA 93407

1 **H. OFFICE COMPLEX – CONCLUSION**

2 DRA recommends that the current Complex disallowance be continued
3 (\$3,100,896) and accounted for as indicated in D.09-06-027.

4 DRA recommends Fontana be ordered to submit to an audit of the Complex
5 costs similar to the one conducted by the Commission’s Division of Water and
6 Audits for the San Gabriel contamination litigation funds. The audit should look
7 at the reasonableness of the escalated building costs for the Complex.

8 DRA also recommends the Commission order San Gabriel to conduct an
9 analysis of the costs associated with using the Tilt-Up construction method for the
10 same project and submit it with its next General Rate Case to determine whether
11 any cost adjustments to the Complex is appropriate in relation to the construction
12 method.

1 **CHAPTER 17: WATER QUALITY**

2 **A. INTRODUCTION**

3 This Chapter presents DRA’s analysis and recommendations on water
4 quality for Fontana. Fontana requests a finding from the Commission that it is in
5 compliance with water quality and safe drinking standards.

6 **B. DISCUSSION**

7 This section sets forth DRA’s analysis and recommendations on water
8 quality for Fontana. DRA reviewed the following:

- 9 • Fontana’s Application;
- 10 • Mr. Robert Young’s Testimony (Exhibit SG-11);
- 11 • Fontana’s Water System Master Plan, 2010 Update (Draft);
- 12 • California Department of Public Health’s (“CDPH”) 2007 Sanitary
13 Survey Report dated July 25, 2008; and
- 14 • Fontana’s response to DRA data requests.

15 **1) Ground Water Treatment**

16 Fontana has a total of thirty-eight groundwater wells including twenty-two
17 in Chino Basin, four in the Rialto Basin, ten in Lytle Basin and two more in the
18 No Man’s Land Basin.

19 **2) Treatment for Volatile Organic Compounds, Perchlorate and**
20 **Nitrate**

21 Volatile Organic Compounds from Wells F10B and F49A are removed by
22 absorption using a 5,000 gallon per minute liquid phase granular activated carbon
23 water treatment facility at Plant F10. A dual pass disposable resin ion exchange
24 water treatment facility capable of treating 6,000 gallons per minute is used to
25 remove perchlorate from Wells F17b and F17C at Plant F17. Nitrate is treated by

1 blending down the nitrate level with water having little or no nitrate to comply
2 with the 45 parts per million maximum contaminant level.

3 Fontana reports that it routinely monitors and samples all groundwater
4 sources and point of entry to the system to assure that water delivered complies
5 with state and federal drinking water regulations.

6 **3) Surface Water Treatment**

7 The Sandhill Treatment Plant treats local surface water (Lytle Creek) and
8 imported surface water (State Water Project from the Inland Empire Utilities
9 Agency and the San Bernardino Valley Municipal Water District.) These surface
10 water sources are subject to the requirements of the Long Term 1 Enhanced
11 Surface Water Treatment Rule, the Long Term 2 Enhanced Surface Water
12 Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule.
13 These three rules regulate contaminants of the water effluent at the Sandhill Plant
14 for turbidity performance standards, Cryptosporidium and Giardia inactivation and
15 residual disinfection byproducts.

16 According to Fontana, the Sandhill Treatment Plant utilizes pretreatment
17 facilities consisting of a rapid mix basin, conventional flocculation basins with
18 enhanced coagulation, sedimentation basins with inclined plate settlers, sludge
19 holding and dewatering ponds, and chemical feed facilities, including a dual-
20 media gravity filtration facility that expands the Sandhill Treatment Plant
21 capabilities, along with other appurtenant facilities. Treatment for turbidity
22 utilizes a diatomaceous earth filtration system. These facilities provide the best
23 available treatment technologies required by the CDPH.

24 Mr. Young's testimony indicates that the Sandhill Treatment Plant is in
25 compliance with all state and federal safe drinking water regulations.

1 Mr. Young's testimony stated that since its previous General Rate Case
2 application, Fontana has not been cited, fined or disciplined by any of the
3 regulatory oversight agencies and it has not exceed the Maximum Contaminant
4 Levels or deviated from prescribed water quality procedures.

5 **4) California Department of Public Health Sanitary Survey Report**

6 The CDPH Sanitary Survey Report dated July 25, 2008 indicated no
7 significant deficiencies found in Fontana's operation and maintenance activities,
8 noting only minor physical deficiencies in need of correction. The minor physical
9 deficiencies were corrected by Fontana.

10 The CDPH made certain conclusions based on the most recent sanitary
11 survey report: (1) Sandhill Treatment Plant met all the performance and
12 disinfection standards; (2) Perchloroethylene or PCE was effectively treated to
13 below the MCL level; and (3) The F17 Ion Exchange treatment facility treated
14 Perchlorate to a concentration below the Maximum Contaminant Level.

15 **5) Meeting with California Department of Public Health**

16 DRA met with Jonathan Weininger, Sanitary Engineer of the California
17 Department of Public Health, Drinking Water Field Operations Branch (San
18 Bernardino District) on September 9, 2011 to discuss the status of the Fontana
19 water system.

20 Mr. Weininger stated the system was in compliance with all health and
21 safety standards at the time of the September 9 meeting. Mr. Weininger indicated
22 that a field inspection of the Fontana system was scheduled to be conducted in
23 October of 2011 with the associated report completed sometime in early 2012.
24 Mr. Weininger indicated DRA would receive a copy of the report when
25 completed.

1 **C. CONCLUSION**

2 Based on the information received, it appears that Fontana is in compliance
3 with federal and state drinking water standards during the year 2011.

CHAPTER 18: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

As specified in the Rate Case Plan, the Commission should authorize Fontana to file its Escalation Years 1 and 2 rate increase requests by Tier 1 Advice Letter no later than 45 days prior to the first of the escalation year.⁴¹¹ The Advice Letter filing should include all calculations and documentation necessary to support the requested rate change.⁴¹² The requested rate increase should be subject to the pro forma earnings test, as specified in D.04-06-018.^{413 414}

The Commission's Division of Water and Audits should review the requested step rates to determine their conformity with the decision in this General Rate Case, and the rate change should go into effect upon the Division of Water and Audits' determination of compliance. The Division of Water and Audits should inform the Commission if it finds that the proposed rates are not in accordance with the General Rate Case decision. The effective date of the revised tariff schedule should be no earlier than July 1, 2013. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues.

⁴¹¹ D.07-05-062, Appendix A, p. 19.

⁴¹² Id.

⁴¹³ Id.

⁴¹⁴ D.04-06-018 on page 14 states: "The escalation year increase shall be decreased to the extent the pro-forma rate of return exceeds the authorized rate of return for the 12-months ending in September for January filers and in April for July filers prior to the escalation year."

1 **C. ESCALATION YEARS' REVENUE REQUIREMENTS**

2 Table 18-1 below shows the Summaries of Earnings for Escalation Years.
3 To obtain the increases in these years, D.04-06-018 and D.07-05-062 require water
4 utilities to file an Advice Letter 45 days prior to the start of the year showing all
5 calculations supporting their requested increases. The revenues shown in Table
6 18-1 are for illustrative purposes only.

TABLE 18-1

SUMMARY OF EARNINGS

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION

	DRA	DRA		
	2013-14	2014-15	% increase	
Item	(Thousands of \$)			
Operating revenues	59,840.6	61,481.4	2.7%	Esc. Factor
Operation & Maintenance	25,094.7	25,877.6	3.1%	1.031
Administrative & General	3,614.0	3,689.9	2.1%	1.021
Allocated Common Expense	4,384.5	4,521.3	3.1%	1.031
Bank Charges	63.1	65.1	3.1%	1.031
Depreciation & Amortization	6,357.8	6,556.2	3.1%	1.031
Taxes other than income	2,662.8	2,745.9	3.1%	1.031
State Corp. Franchise Tax	1,040.6	1,072.6	3.1%	
Federal Income Tax	4,256.8	4,371.9	2.7%	
Total operating expenses	47,474.3	48,900.4	3.0%	
Net operating revenue	12,366.3	12,581.0	1.7%	
Rate base	133,761.3	136,030.9	1.7%	
Return on rate base	9.25%	9.25%	0.0%	

APPENDIX A

STATEMENTS OF QUALIFICATIONS AND PREPARED TESTIMONY

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
CARA BAUTISTA**

Q2. Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).

A1. My name is Cara Bautista and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a master’s student at UC Berkeley’s Goldman School of Public Policy currently interning in the Water Branch of the Division of Ratepayer Advocates (“DRA”).

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Arts in Psychology and a minor in English (Genre Studies concentration) from the University of California, Berkeley in 2004. I have been an intern in the Water Branch of DRA since May 2011. I have also been an intern at the Center of Evaluation for Global Action at UC Berkeley since October 2011. My previous professional positions were as the Deputy Political Director, Assistant Outreach Director, and Phone Program Director of Peace Action West, formerly California Peace Action (2004-2010). I worked as a Research Assistant at the Center for Studies in Higher Education at UC Berkeley (2004-2005).

Q3. What is your responsibility in this proceeding?

A3. As a witness for DRA in Application 11-07-005, I am responsible for Chapter 12 – California Alternative Rates for Water.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
MARK KENT BUMGARDNER, MBA**

Q.1. Please state your name and address.

A.1. My name is Mark Kent Bumgardner. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Retired Annuitant in the position of a Public Utilities Regulatory Analyst V in the Division of Ratepayer Advocates, Water Branch.

Q.3. Briefly describe your educational background and work experience.

A.3. I have a Bachelor of Science degree in Business Administration, with an option in Accounting. My Masters of Business Administration (MBA) is in Management Science. I have also passed the Certified Public Accountant (CPA) examination and I am a member of the American Institute of Certified Public Accountants (AICPA).

Q.4. Briefly describe your professional experience.

A.4. I joined the Commission in 1981. I have worked on numerous telephone, gas, electric, and water proceeding general rate cases. I have participated in General Rate Case proceedings on Pacific Bell Company, Roseville Telephone Company, Continental Telephone Company, Citizens Utility Company, Pacific Gas and Electric Company, San Diego Gas and Electric Company, Southern California Edison Company, and numerous Class A Water Utilities. I have presented both written and oral testimony in connection with these proceedings.

Q.5. What is your area of responsibility in this proceeding?

A.5. I am responsible for: Chapter 3 – Operations and Maintenance Expenses, Section C.1.h (Uncollectibles); Chapter 5 – Taxes Other Than Income; Chapter 6 – Income Tax; and Chapter 7 – Utility Plant-In-Service, Section C.29 (Allowance for Funds Used During Construction).

Q.6. Does that complete your prepared testimony?

A.6. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for over eight years. I have testified before the Commission in General Rate Cases involving several Class A water utilities including California Water Service Company and Park Water Company. Previously, I was employed by the State of Washington's Department of Ecology for eight years.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 2 – Water Consumption and Operating Revenues, Chapter 3 – Operations and Maintenance Expenses (except for Payroll and Uncollectibles), and Chapter 4 – Administrative and General Expenses (except Payroll and Franchise Fees).

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
RAYMOND CHARVEZ**

Q1. STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is Raymond Charvez. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q2. WHAT IS YOUR PRESENT POSITION?

A2. I am a retired annuitant employed as a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q3. DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A3. I graduated from Armstrong College of Business Administration in 1971 with a Bachelor of Science degree in Accounting and I have completed subsequent graduate studies in business administration. Since joining the Commission staff in 1971, I have worked on formal matters involving electric, gas, telephone, and water utilities.

Q4. WHAT IS YOUR RESPONSIBILITY IN THIS PROCEEDING?

A4. I am responsible for Chapter 1, Section C.3 which presents DRA's recommendations regarding the Water Quality Litigation Memorandum Account and the Water Quality Memorandum Account in Application 11-07-005.

Q5. DOES THAT COMPLETE YOUR TESTIMONY?

A5. Yes.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
KERRIE EVANS**

- Q1. Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).
- A1. My name is Kerrie Evans and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates (“DRA”).
- Q2. Please summarize your education background and professional experience.
- A2. I received a Bachelor of Science Degree in Civil Engineering with a minor degree in History, from the University of California, Davis in 1990. I have worked for the Commission since 1990 in various divisions including the Water Division, the Resources and Rate Design Branches of the Division of Ratepayer Advocates and the Utilities Safety Branch.
- Q3. What is your responsibility in this proceeding?
- A3. As an expert witness for DRA in A.11-07-005, I am responsible for Chapter 7-Utility Plant-in-Service, Section C.1 to C.14, Chapter 16 – Slemmer Settlement and Office Complex, and Chapter 17 – Water Quality.
- Q4. Does this conclude your prepared direct testimony?
- A4. Yes, it does.

**QUALIFICATION AND PREPARED TESTIMONY
OF
NICKOLAY KOTYRLO**

Q. STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Nickolay Kotyrlo and my business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am employed as a Financial Examiner III in the Water Branch of the Division of Ratepayer Advocates.

Q. DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor's degree in Business Administration from the Pacific Union College and I am a Certified Public Accountant registered in the State of California. Prior to joining the Commission, I worked for almost six years at the Department of Corporations (DOC), Securities Regulations Division. At DOC I was a lead examiner and conducted various examinations of investment advisers and broker-dealers. At the Commission I worked on General Rate Cases, reviewed advice letters and worked on various other proceedings.

Q. WHAT IS YOUR RESPONSIBILITY IN APPLICATION 11-07-005?

A. I am sponsoring DRA's Testimony, Chapter 13 – Balancing and Memorandum Accounts.

Q. DOES THAT COMPLETE YOUR TESTIMONY?

A. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAT MA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).

A1. My name is Pat Ma and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Industrial and Systems Engineering with a concentration in Management from San Jose State University in 1986. I received my Professional Engineer License in Industrial Engineering in the State of California in 1989 and a Grade 2 Water Distribution Operator Certification in 2010.

I joined Division of Ratepayer Advocates’ Water Branch as a Utilities Engineer in December 2008. My previous professional position was as a Senior Utilities Engineer at the Commission, where I worked from 1986 to 1999 in transportation, telecommunications, energy, and water areas. I also worked briefly for the U.S. EPA, Region 9 in 1989 as an Environmental Engineer.

Q3. What is your responsibility in this proceeding?

A3. I serve as DRA’s project coordinator in this proceeding. I am responsible for the general coordination of and Sections C.15-16, 18-25 and 27 in Chapter 7 – Utility Plant-in-Service. I am also sponsoring Chapter 1 – Overview and Policy (except for Section B.3) and Chapter 18 – Step Rate Increases.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
HERBERT R. MERIDA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Herbert Merida and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utilities Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from San Francisco State University, with a Bachelor of Science Degree in International Business Management, a minor in Economics, and a Master of Business Administration Degree. Regarding my professional experience, I have been employed by the Commission for more than four years and have worked on many general rate case proceedings. Also, I have held a variety of positions at Levi Strauss & Co., Siemens A.G., the Employment Development Department, the State Compensation Insurance Fund, and most recently the Commission.

Q3. What is your responsibility in this proceeding?

A3. As an expert witness for DRA in A.11-07-005, I am responsible for Chapter 8 – Depreciation Reserve and Depreciation Expense, Chapter 9 – Rate Base, and the Payroll sections in Chapter 3 – Operations and Maintenance Expenses and Chapter 4 – Administrative and General Expenses. I also serve as DRA’s Assistant Project Coordinator and prepare DRA’s Results of Operations tables in this general rate case.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
MANDY M. RASMUSSEN**

- Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A1. My name is Mandy M. Rasmussen and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.
- Q2. Please summarize your education background.
- A2. I graduated from Colorado State University with a Bachelor of Science Degree in Environmental Engineering.
- Q3. Briefly describe your professional experience.
- A3. I have sponsored testimony on water consumption and operating revenues, rate design, and utility plant in service for the Apple Valley Ranchos Water Company general rate case (A.11-01-01) and sponsored testimony, acted as DRA project manager, and testified during evidentiary hearings in the multi-company proceeding regarding the amortization of WRAM/MCBA related balancing accounts (A.10-09-017). Previous to my work with DRA, I was an engineering consultant and worked with municipalities and private companies on 1) water and wastewater treatment process design, construction, operation and maintenance 2) distribution and collection system infrastructure design, and 3) customer growth projections and utility planning. I joined the Commission in January 2011.
- Q4. What is your responsibility in this proceeding?
- A4. As an expert witness for DRA in A.11-07-005, I am responsible for Chapter 7 – Utility Plant-in-Service, Sections C.17, 26 and 28, and Chapter 15 – Sandhill Water Treatment Plant Upgrade.
- Q5. Does this conclude your prepared direct testimony?
- A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
CHARI WORSTER**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).

A1. My name is Chari Worster and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Public Utilities Regulatory Analyst (“PURA”) in the Water Branch of the Division of Ratepayer Advocates (“DRA”).

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Business Administration with a major in Management from San Carlos University, Philippines. I have been employed by the Commission as a PURA since 2005 during which time I worked on numerous projects including but not limited to General Rate Cases.

Prior to joining the Commission, I worked as a Senior Business Taxes Representative for the California State Board of Equalization.

Q3. What is your responsibility in this proceeding?

A3. As an expert witness for DRA in A.11-07-005, I am responsible for Chapter 11 – Rate Design, and Chapter 14 – Conservation.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

[END OF APPENDIX A]

APPENDIX B
Attachments to Chapters 12 and 15

(Appendix B is in a separate document.)